# The 2018-19 Budget:
# Analysis of the May Revision Education Proposals

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## INTRODUCTION

In this report, we analyze the May Revision education proposals. We first provide an overview of Proposition 98 funding and then focus on the Governor's major proposals for K-12 education, child care and preschool, community colleges, universities, and student financial aid. This year, the May Revision does not contain substantially higher amounts of education funding. It does, however, contain a few major new policy proposals and many notable policy revisions to the Governor's January proposals. Most notably, the May Revision includes a major proposal relating to a new process for certifying and truing up the Proposition 98 minimum guarantee. We believe this proposal merits serious legislative consideration. The May Revision also makes notable revisions to the Governor's January proposals for building a new system of support for low-performing school districts, restructuring the community college apportionment formula, and creating a new online college. We think some of the policy revisions in the May Revision reflect improvements, but we think they tend not to go far enough in addressing key underlying issues. In the pages that follow, we offer many specific recommendations for the Legislature to consider on these and other issues. Our package of recommendations includes adopting some proposals, modifying others in certain ways, rejecting others but inviting better proposals next year, and rejecting some proposals in their entirety.

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# PROPOSITION 98 OVERVIEW

Below, we explain and assess the May Revision changes in the Proposition 98 minimum guarantee and analyze the administration's certification proposal.

## Major Changes in the Guarantee

***Increases Proposition 98 Funding by $727 Million Over the Period.*** Figure 1 compares Proposition 98 funding under the Governor's January budget and the May Revision. Compared with January, the May Revision proposes $727 million in additional funding across the 2016-17 through 2018-19 period ($252 million in 2016-17, $407 million in 2017-18, and $68 million in 2018-19). Under the May Revision, total Proposition 98 funding in 2018-19 is $78.4 billion, a $2.8 billion (3.7 percent) increase over the revised 2017-18 level. For each year of the period, the Governor proposes to fund at the revised estimate of the minimum guarantee.

***Revises General Fund Revenue Estimates Upward Significantly.*** Several factors affecting the guarantee have changed since January. One notable change relates to state General Fund revenue estimates. Compared to January estimates, the May Revision has General Fund tax revenue up nearly $8 billion over the three-year period. In most years, upward revisions of this magnitude lead to significant increases in the Proposition 98 guarantee. These increases often reflect higher required maintenance factor payments. The Governor's budget, however, already assumed the state would end 2017-18 with relatively little maintenance factor outstanding. Given these conditions, the increase in the minimum guarantee attributable to the higher revenue is only about $450 million over the period.

***Proposes to Rebench the Guarantee for 2015-16 Shift of Preschool Costs.*** Another factor affecting the guarantee relates to a rebenching proposal. In 2015-16, the state changed the way it accounted for certain preschool costs. Previously, the state had funded the part-day preschool program using Proposition 98 General Fund and all wraparound care using non-Proposition 98 General Fund. In 2015-16, the state began using Proposition 98 to pay for the portion of wraparound care provided by school districts and county offices of education (with wraparound care provided by nonprofit agencies still funded from non-Proposition 98 General Fund). The Governor now proposes to adjust (or "rebench") the minimum guarantee upward to account for this cost shift. Rebenching for the shift accounts for approximately $350 million (or half) of the total increase in the guarantee over the period. (The California School Boards Association sued the state over its previous action not to rebench the guarantee. A trial court ruled against the state in late 2016, and the state is in the midst of appealing that decision.)

***Incorporates Lower Per Capita Personal Income Rate for 2018-19.*** Whereas the above two changes increase the guarantee, the recent adjustment to the per capita personal income rate has a downward effect on the guarantee.

**Figure 1**

**Comparing Proposition 98 Funding Under Governor's Budget and May Revision**

*(In Millions)*

| | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|
| **Governor's Budget** | | | |
| General Fund | $49,993 | $52,741 | $54,564 |
| Local property tax | 21,397 | 22,470 | 23,761 |
| **Totals** | **$71,390** | **$75,211** | **$78,324** |
| **May Revision** | | | |
| General Fund | $50,234 | $53,381 | $55,025 |
| Local property tax | 21,407 | 22,236 | 23,368 |
| **Totals** | **$71,642** | **$75,618** | **$78,393** |
| **Change** | | | |
| General Fund | $241 | $641 | $461 |
| Local property tax | 11 | -234 | -393 |
| **Totals** | **$252** | **$407** | **$68** |

The administration in January estimated that growth in per capita personal income would be 4.25 percent. (For purposes of calculating the minimum guarantee, the data underlying the per capita personal income rate is lagged one year.) The May Revision incorporates revised data from the federal government showing the growth rate now at 3.67 percent. This lower growth rate offsets about $80 million of the increase in the 2018-19 guarantee that otherwise would result from the increase in General Fund revenue.

***Makes No Notable Changes to Student Attendance Estimates.*** Data from the California Department of Education show that final student attendance for 2016-17 came in slightly higher than the administration had projected in January. The May Revision updates the 2016-17 guarantee to account for the new data but makes essentially no changes to 2017-18 or 2018-19 attendance estimates. Under the administration's projections, attendance increases by 0.01 percent in 2017-18 then declines by 0.29 percent in 2018-19. Similar to January, the assumption about attendance growth in 2017-18 is significant because it triggers a two-year hold harmless provision set forth in the State Constitution. The provision effectively prevents the projected attendance decline in 2018-19 from affecting the 2018-19 minimum guarantee.

***Property Taxes Down From January Budget.*** Compared to January, the administration estimates that Proposition 98 property tax revenue is down $627 million over the period (down $234 million in 2017-18 and down $393 in 2018-19). The administration updates its 2017-18 estimate using data recently reported by schools and colleges. This data shows some weakness relative to January. Some of the weakness is the result of lower-than-expected revenue from the 1 percent tax levied on the value of most properties. The administration assumes this weakness in 2017-18 carries forward to 2018-19. The administration also makes a downward adjustment to the estimates of revenue attributable to local Educational Revenue Augmentation Fund accounts in 2018-19.

## A New Certification Process

***State Originally Created Certification Process to Finalize the Calculation of the Minimum Guarantee.*** The state created the certification process through statute in 1989 after voters approved Proposition 98 the previous year. Under the law, the Director of Finance, State Superintendent of Public Instruction, and California Community Colleges Chancellor are to agree upon and certify a final calculation of the minimum guarantee within nine months following the end of the fiscal year. Though intended to be an annual process, those responsible for certification have rarely agreed on all aspects of the Proposition 98 calculations. These disagreements have tended to delay certifications for many years after the statutory deadline. The last time the state certified the minimum guarantee was in 2008-09. Even that year, the Legislature decided to set forth the minimum guarantee in statute rather than use the process outlined above.

***May Revision Proposes New Process for Certifying the Minimum Guarantee.*** The Governor proposes a new certification process that would be managed by the Director of Finance. Under the new process, the administration would publish a tentative recalculation of the prior-year minimum guarantee in the May Revision. This estimate would include all of the underlying factors used in the calculation of the guarantee. Similar to current practice, some of these factors (such as General Fund revenue and state population) would reflect the administration's final estimates for the year whereas other factors (such as student attendance and local property tax revenue) would reflect amounts reported by the California Department of Education and the California's Community Colleges Chancellor's Office. The publication of this tentative calculation would begin a public comment period that would allow any interested party to submit feedback on the estimates. After reviewing and responding to these comments, the administration would publish a final calculation of the guarantee by June 30. Over the next 90 days, a concerned party could submit a legal challenge over any issue not resolved through the comment process. Assuming no legal challenges, the guarantee would be deemed certified at the end of the 90-day period.

***May Revision Also Includes New Companion Process for Finalizing Prior-Year Spending.*** The Governor also proposes a new process that would automatically adjust the spending that counts toward the minimum guarantee when the guarantee increases and decreases based upon the final certification. For years in which the guarantee drops, the state on paper would reduce spending counting toward the guarantee and credit the difference to a newly created true-up account called the "Proposition 98 Cost Allocation Schedule." For years in which the guarantee ends up higher during certification, the state would apply any available credits in this account toward the spending required to meet the higher minimum guarantee. If the credits in the account were insufficient to meet the higher guarantee, the state would provide the remaining difference to schools and community colleges through a settle-up payment. As under current practice, the Legislature could decide how to allocate this settle-up payment. If the Legislature did not specify an allocation method, the State Controller would distribute the payment to schools and community colleges based on student attendance.

***Proposal Caps Credits in the True-Up Account.*** The administration proposes to limit the total amount of credits in the account to 1 percent of the minimum guarantee being certified that year. Each year, the state would adjust spending and add credits to the account only to the extent the minimum guarantee dropped and existing credits in the account were below the 1 percent threshold. Any spending above this threshold would continue to count toward the guarantee.

***Proposal Also Entails Certifying All Earlier Years.*** As part of the switch to a new certification process, the administration proposes to certify the guarantee for 2009-10 through 2015-16. The certified amounts would reflect final Proposition 98 spending for each of those years. The administration proposes using a similar public process over the coming year to share these amounts publicly and allow for a set period of comment, review, and potential challenge.

## Assessment

***Potential Upside for State Revenue but Not for the Minimum Guarantee.*** Our estimates of General Fund revenue from the personal income tax are higher than the administration's estimates in 2017-18 and 2018-19. The difference primarily reflects our higher projections of capital gains in 2017 and 2018 and higher wages and salaries in 2019. (Our estimates of the other major sources of General Fund revenue—the sales tax and the corporation tax—together are somewhat lower than the administration's estimates, offsetting a small portion of our higher personal income tax estimates.) If General Fund revenue were to increase a few billion dollars in either or both years from the May Revision estimates, the minimum guarantee, however, would not increase. This is because the May Revision already assumes the state pays all remaining maintenance factor in 2017-18 and the minimum guarantee grows based upon per capita personal income. Faster revenue growth under these conditions does not increase the Proposition 98 guarantee. As a result of these dynamics, any additional revenue beyond the levels included the May Revision would be available for any legislative priority.

***Administration's Estimate of 2018-19 Minimum Guarantee Likely High Based on Recent Attendance Data.*** Not only is the minimum guarantee unlikely to increase further in 2017-18 or 2018-19, but the administration's estimate of the 2018-19 guarantee could be too high. In March 2018, the state received preliminary student attendance data for the first half of the 2017-18 school year. The data suggest attendance is likely to decline by 0.03 percent, compared with the 0.01 percent increase included in the May Revision. Since this change equates to only a few thousand students, the effect on the 2017-18 guarantee would be minor. The effect on the 2018-19 guarantee, however, would be more significant (a several hundred million dollar drop) because the hold harmless provision would no longer be operative and the 2018-19 guarantee would decline in tandem with the decline in attendance projected for that year. Assuming this drop occurs, the state would have provided more funding than required to meet the minimum guarantee in 2018-19, which could lead to a higher minimum guarantee moving forward.

***Administration's Property Tax Estimates Seem a Bit Low.*** We estimate Proposition 98 property tax revenue is nearly $650 million higher over the period than the administration's estimate. About $500 million of this difference is in 2018-19. Our higher estimate primarily reflects higher assumptions about growth in assessed property values. Whereas the administration assumes property values will grow 5.6 percent in 2018-19, we assume growth of 6.4 percent. In 2017-18, assessed property values grew 6.2 percent. We believe a modest uptick in the growth rate for 2018-19 seems likely given recent trends in home price and building permits. Home prices ticked up from 7 percent in 2016 to 8 percent in 2017 and have grown at a 9 percent annual rate thus far in 2018. In addition, residential building permits increased from 101,000 in 2016 to 113,000 in 2017 and are on pace to be above 2017 levels thus far in 2018. Though higher property tax revenue would not affect the minimum guarantee, it would reduce General Fund spending required to meet the minimum guarantee dollar for dollar.

***Certification Proposal Has Clear Advantages Over Current Process, Recommend Adopting.*** Though straightforward in concept, the current certification process has a number of drawbacks. Below, we describe four ways the Governor's proposal would improve upon the current process.

- ***Clearer Lines of Accountability.*** By diffusing responsibility across three separate entities, the current certification process hinders the Legislature's ability to hold any one actor accountable for the timely certification of the guarantee. The Governor's proposal addresses this issue by clearly assigning the duty to the Director of Finance.
- ***Faster Resolution of Disputes.*** Many disputes over the Proposition 98 calculations have lingered for years because the current certification process does not promote a timely resolution of these disputes. By limiting legal challenges to a specified period, the state would encourage these disputes to be resolved more quickly.
- ***Less Financial Risk for the State.*** As part of the 2001-02 May Revision, the administration revised its state population estimates as far back as 1995-96. These revisions increased the 1995-96 through 1997-98 minimum guarantees by nearly $600 million, even though schools and community colleges had long since closed their books on these years. Certifying the guarantee more promptly would reduce the likelihood of such post-year budget surprises.
- ***Greater Transparency.*** Currently, the key inputs and assumptions affecting the final calculation of the guarantee are not widely available to the public. The Governor's proposal would make these factors available and could help legislators and the public better understand the complex calculations underlying the minimum guarantee.

For all these reasons, we recommend the Legislature adopt the May Revision certification proposal.

***New True-Up Process Would Automate Common Budget Practice.*** Managing changes in the minimum guarantee can be one of the Legislature's more difficult budget responsibilities. Over the past ten years, changes to the guarantee within the fiscal year have ranged from an increase of more than $6 billion to a drop of nearly $9 billion. Somewhat smaller changes have occurred after the fiscal year is over, ranging from an increase of more than $1.3 billion to a decrease of nearly $200 million. When the guarantee increases, the state typically responds by making additional appropriations as part of next year's budget plan. When the guarantee drops, the state typically responds with various actions to reduce spending to the lower guarantee. In some cases, such as payment deferrals or mid-year budget reductions, these actions affect school and community college budgets directly. More commonly, however, the Legislature enacts statute to reclassify some or all of the spending above the guarantee as a payment toward a different fiscal year when the state did not fully fund the guarantee. This approach allows schools and community colleges to retain appropriations the state previously approved while still setting spending equal to the guarantee. The Governor's proposal automates this practice, making it the state's default action.

***Proposed Cap on True-Up Account Works Counter to Intent of Proposal.*** As we understand the Governor's proposal, the true-up account is intended to make the process of aligning spending with the minimum guarantee a routine part of the state's budget closeout. The proposed cap, however, seems to work counter to this intent. If drops in the guarantee exceeded the 1 percent threshold (approximately $785 million in 2018-19) or if the state had credited amounts to the account in previous years, the state would not be able to align spending with the guarantee that year. Moreover, the cap might result in the state taking other actions to align spending with the guarantee that would be more disruptive to district budgets. For example, if the state were anticipating a drop in the guarantee, it might choose to make a larger mid-year programmatic reduction knowing that the true-up process would not necessarily help it align spending with the guarantee. For these reasons, we recommend the state approve the Governor's proposal without the cap and monitor the true-up calculations over the next several years to see whether additional refinements might be needed.

***Recommend Adopting Proposal to Certify Guarantee From 2009-10 Through 2015-16.*** The state last certified the guarantee nearly ten years ago—the longest delay in certification since the passage of Proposition 98. Holding the calculation open for such a long time (1) invites further disputes over past calculations of the guarantee, (2) complicates the state's efforts to calculate future minimum guarantees correctly, and (3) exposes the state to higher potential costs if some unexpected development emerged to increase the guarantee for many years retroactively. For all these reasons, we recommend the Legislature adopt the Governor's proposal to certify the guarantee from 2009-10 through 2015-16 using a transparent process.

# K-12 EDUCATION

***K-12 Proposition 98 Funding Up $812 Million Across Period.*** Figure 2 compares total K-12 funding under the Governor's January budget with the May Revision. The May Revision provides an additional $812 million in Proposition 98 funding for K-12 education across the 2016-17 through 2018-19 period. Under the May Revision, total Proposition 98 funding for K-12 education in 2018-19 is $67.9 billion, reflecting an increase of $2.2 billion (3.4 percent) over the revised 2017-18 level. Proposition 98 funding per student is $11,428, an increase of $404 (3.7 percent) over the revised 2017-18 level.

***May Revision Contains Mix of Ongoing and One-Time K-12 Proposals.*** Though K-12 Proposition 98 funding that counts toward the minimum guarantee is up $812 million over the period, notable K-12 May Revision spending proposals total $697 million. The difference is largely due to certain automatic cost increases that reduce the amount available for new spending. Of the $697 million in K-12 spending proposals, $289 million is for ongoing programs and $409 million is for expanded or new one-time initiatives. Figure 3 (see page 8) shows these proposals. Below, we describe and assess them. We focus first on the three largest K-12 proposals, then highlight a few other notable K-12 proposals. We discuss preschool proposals in the next section.

## Major Changes

***Increases One-Time Discretionary Funding by $286 Million.*** The Governor's January budget included nearly $1.8 billion for one-time discretionary grants to local education agencies (LEAs). The May Revision provides an additional $286 million, bringing total one-time discretionary funding to more than $2 billion. This funding would be scored against LEAs' outstanding mandate backlog claims. Consistent with the January proposal, the administration proposes to distribute

**Figure 2**

**Comparing K-12 Proposition 98 Funding Under Governor's Budget and May Revision**

*(Total Funding in Millions)*

| | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|
| **Governor's Budget** | | | |
| General Fund | $44,435 | $46,964 | $48,413 |
| Local property tax | 17,485 | 18,320 | 19,375 |
| **Totals** | **$61,920** | **$65,283** | **$67,788** |
| Students[a] | 5,960,037 | 5,961,253 | 5,944,090 |
| Dollars per student | $10,389 | $10,951 | $11,404 |
| **May Revision** | | | |
| General Fund | $44,676 | $47,530 | $48,811 |
| Local property tax | 17,484 | 18,186 | 19,117 |
| **Totals** | **$62,160** | **$65,715** | **$67,928** |
| Students[a] | 5,960,770 | 5,961,379 | 5,944,010 |
| Dollars per student | $10,428 | $11,024 | $11,428 |
| **Change** | | | |
| General Fund | $241 | $566 | $398 |
| Local property tax | -1 | -134 | -258 |
| **Totals** | **$240** | **$432** | **$140** |
| Students[a] | 733 | 126 | -80 |
| Dollars per student | $39 | $72 | $24 |

[a] Reflects average daily attendance.

these grants based on student attendance, with the rate increasing to about $340 per student (up from about $300 per student in January). An LEA could use the funds for any education purpose, but the administration encourages LEAs to use the funds for deferred maintenance, professional development, and employee benefits, among other priorities. The administration also retains its January proposal to deduct each district's obligation under the Medi-Cal billing agreement from its individual grant amount but revises its estimate of these obligations down from $222 million to $145 million.

***Increases Local Control Funding Formula (LCFF) by $277 Million.*** This increase brings the Governor's total proposed LCFF augmentation in 2018-19 to $3.2 billion. This augmentation is slightly more than needed to reach the LCFF target funding rates. Of the $3.2 billion, $3.1 billion is provided for reaching the target rates and $166 million is provided on top of the target rates (reflecting a 0.3 percent increase). The May Revision proposal effectively serves to provide a larger cost-of-living-adjustment (COLA) to the program (3 percent rather than the statutory COLA rate of 2.71 percent).

***Continuously Appropriates LCFF COLA.*** Under current law, school districts and charter schools automatically receive last year's LCFF allocation adjusted for changes in attendance. Any other LCFF increases, including COLA, require annual budget authorization. As part of the May Revision, the Governor proposes to begin continuously appropriating the LCFF COLA.

## Other Changes

***Provides $22 Million to Convert the English Language Proficiency Assessments for California (ELPAC) From Paper to Computer Based.*** The ELPAC assesses whether students from non-English speaking households require special support to learn English. The pencil-and-paper version of the ELPAC is being rolled out this spring. The ELPAC replaces the California English Language Development Test (CELDT), which is no longer aligned with state academic content standards.

***Provides $5.9 Million to Develop Alternative ELPAC for Students With Disabilities.*** Some students with severe cognitive disabilities cannot be accurately assessed using the ELPAC, as developed to date. Currently, these students' Individualized Education Program (IEP) teams are tasked with identifying appropriate alternative assessments on a case-by-case basis. The Governor's proposal would replace this case-by case method of selecting alternatives with a single, statewide alternative assessment.

***Provides $21.1 Million Backfill for Charter School Facility Grant Program (CSFGP) in 2017-18, Adjusts 2018-19 Appropriation Downward.*** The CSFGP helps some charter schools in privately leased facilities cover their rent and certain other facilities costs. The Governor proposes $21.1 million one time to backfill a CSFGP shortfall in 2017-18. Absent this backfill, current-year CSFGP awards would be prorated down to 80 percent of the full statutory rates. For 2018-19, the Governor adjusts ongoing program funding down by $3.6 million, for a year-over-year augmentation of $24.8 million (rather than the $28.4 million proposed in January). The administration indicates that the adjustment is based upon updated program data.

***Provides $15 Million for New School Climate Pilot Program.*** The May Revision proposes to award this funding to the Orange and Butte County Offices of Education (COEs). In recent years, these COEs received a total of $30 million (one-time Proposition 98) to develop a statewide framework for Multi-Tiered Systems of Support (MTSS), which involves strategies for serving academically and behaviorally challenged students. The May Revision proposes that these COEs partner with a California institution of higher learning to design a pilot program that would test out new strategies for addressing issues such as bullying and student trauma. The May Revision requires the two COEs, in coordination with the selected institution of higher learning, to submit to the administration and Legislature an expenditure plan for the funds by December 1, 2018.

***Increases K-12 Strong Workforce Proposal by $2 Million Ongoing.*** This augmentation is intended to help Strong Workforce consortia administer the new high school career technical education

**Figure 3**

**Comparing K-12 Proposition 98 Proposals Under Governor's Budget and May Revision**

*Reflects New Spending, 2016-17 Through 2018-19 (In Millions)*

| | Governor's Budget | May Revision | Change |
|---|---|---|---|
| **Ongoing** | | | |
| Increase LCFF funding | $2,883 | $3,160 | $277 |
| Provide COLA for select categorical programs[a] | 106 | 114 | 8 |
| Increase state preschool funding | 68 | 70 | 2 |
| Fund more regional and county support for low-performing districts | 70 | 69 | — |
| Augment Charter School Facility Grant Program | 28 | 25 | -4 |
| Support the California Collaborative for Educational Excellence | 7 | 12 | 5 |
| Provide additional funding for online educational resources | 1 | 1 | — |
| Provide additional support for districts in fiscal distress | — | 1 | 1 |
| Reimburse additional costs related to teacher dismissals | — | —[b] | — |
| Subtotals | ($3,162) | ($3,451) | ($289) |
| **One Time** | | | |
| Provide K-12 discretionary grants | $1,757 | $2,042 | $286 |
| Provide grants for preschool and childcare providers | $125 | $167 | $42 |
| Establish special education teacher residency program | 50 | 50 | 0 |
| Provide grants for addressing special education teacher shortage | 50 | 50 | 0 |
| Convert ELPAC to computer based | — | 22 | 22 |
| Backfill for shortfall in Charter School Facility Grant Program | — | 21 | 21 |
| Fund new "school climate" initiative | — | 15 | 15 |
| Create grant program to support community engagement | — | 13 | 13 |
| Create alternative ELPAC for students with disabilities | — | 6 | 6 |
| Backfill basic aid districts for fire-related property tax decline | — | 4 | 4 |
| Support Southern California Regional Occupational Center | 3 | 3 | — |
| Subtotals | ($1,985) | ($2,393) | ($409) |
| **Totals** | **$5,147** | **$5,844** | **$697** |

[a] Applies to special education, child nutrition, mandates block grant, services for foster youth, adults in correctional facilities, and American Indian education. Rate increased from 2.51 percent (Governor's Budget) to 2.71 percent (May Revision).

[b] May Revision proposes $60,000 for this purpose.

LCFF = Local Control Funding Formula; CTE = Career Technical Education; and ELPAC = English Language Proficiency Assessments for California.

(CTE) program proposed in the Governor's budget. The funds would support consortia staff (likely community college administrators) in performing various functions, such as managing the Workforce Pathway Coordinators that serve as liaisons to high school CTE programs.

***Clarifies COEs' Role in Supporting Low-Performing Districts.*** The May Revision provides greater detail regarding the types of support COEs may provide low-performing districts. Specifically, the proposal allows COEs to assist a school district in identifying its strengths and weaknesses, reviewing its performance data, and identifying evidence-based strategies for addressing its areas of weaknesses. Rather than providing direct support, COEs also may work with a school district to access assistance from another academic, fiscal, or programmatic expert to determine areas of weakness and identify strategies to address those weaknesses. COEs may request the California Collaborative for Educational Excellence (CCEE) provide advice and assistance to the school district. COE assistance is not required if a school district chooses to work with another entity in undertaking these activities.

***Reduces Funding for Single-District COEs.*** The Governor decreases the January augmentation for COEs by $1 million—from $55.2 million to $54.2 million. The May Revision removes base funding for COEs serving a single district. Specifically, these COEs would not receive the proposed $200,000 in base funding that goes to other COEs for building capacity to support districts.

***Makes Modest Programmatic Changes to Lead Agencies.*** The May Revision makes minor changes to the responsibilities for the proposed COE and special education lead agencies. Regarding COE lead agencies, the May Revision specifies that a COE or a school district identified in need of assistance could request a COE lead agency provide it with support. The proposal also specifies that prior to reselecting a COE to continue serving as a lead agency, the COE must demonstrate it is fulfilling its lead responsibilities. Its performance assessment is to be based on its progress in building COEs' capacity and the number of school districts required to receive support within its geographic region. Regarding special education lead agencies, the May Revision specifies that at least three of these lead agencies will focus on building the capacity of Special Education Local Planning Areas to work with low-performing districts.

***Provides $234,000 to CCEE for Administrative Operations.*** The May Revision increases funding to CCEE by $234,000 to reflect updated estimates of the agency's administrative costs. The total appropriation for CCEE in 2018-19 would be $11.5 million.

***Provides $13 Million for Professional Learning Networks Focused on Community Engagement.*** The May Revision provides $13 million one time for CCEE and a lead agency to jointly administer professional learning networks focused on community engagement. Funding would be used to operate the professional learning networks over the next six years.

## Assessment and Recommendations

Figure 4 (see next page) summarizes our recommendations for the May Revision K-12 proposals. We provide our assessment of the most notable of these proposals below.

***Use One-Time Funding to Strategically Retire Mandates Backlog.*** Although the May Revision identifies the discretionary grants as a component of the administration's broader goal of reducing debt, the Governor's proposal would do relatively little to retire the K-12 mandates backlog. By distributing discretionary funding purely based on attendance, we estimate less than 20 percent ($334 million) of the $2 billion included in the May Revision would reduce the mandate backlog. This is because nearly two-thirds of LEAs have no outstanding claims and the claims for other LEAs vary widely on a per-student basis. We estimate that continuing to use a per-student approach to retire the entire backlog would cost nearly $200 billion (about $34,000 for every student in the state). As in the previous years, we recommend the Legislature use one-time funding more strategically to retire the mandate backlog. Under our recommended alternative, all districts could receive funding but districts with outstanding claims would need to agree to write off their existing claims.

***May Revision LCFF Proposal is One of Several Reasonable Options.*** Of the $277 million increase in LCFF funding under the May Revision, $111 million funds the higher statutory COLA (which increased from 2.51 percent to 2.71 percent based upon updated data). Funding the higher COLA for LCFF is consistent with typical state budget practice. Beyond adjusting the target rates for COLA, the Legislature has many options for further augmenting LCFF. Though providing an additional 0.3 percent to LCFF funding rates is one reasonable option, we lay out several other

Figure 4

**Summary of K-12 Education Recommendations**

| Issue | May Revision Proposal | LAO Recommendation |
|---|---|---|
| **One-time discretionary grants** | Increases by $286 million (raising total funding to $2 billion). | ***Modify.*** Link additional one-time discretionary grants to a strategic plan to pay off remainder of K-12 mandates backlog. |
| **LCFF funding** | Provides $277 million ongoing. | ***Adopt.*** Approve total funding amount but could consider alternative ways to augment rates. |
| **LCFF COLA** | Changes statute to continuously appropriate LCFF COLA increases. | ***Reject.*** Proposal would limit legislative discretion in future budget cycles. |
| **Computer-based ELPAC** | Provides $22 million to convert ELPAC from pencil to computer based. | ***Reject.*** Proposal seems unreasonably expensive. Revisit issue next year. |
| **Alternate ELPAC** | Provides $5.9 million to create alternate ELPAC for students with disabilities. | ***Withhold Recommendation.*** Request additional information from CDE concerning relevant federal requirements and project costs. |
| **Charter School Facility Grant Program backfill** | Provides $21.4 million one time to fully fund 2017-18 awards under administration's estimates. | ***Modify.*** Provide either (1) $24 million to fully fund 2017-18 awards or (2) $3 million to ensure all recipients receive at least as much as they received in 2016-17. |
| **Charter School Facility Grant Program augmentation** | Decreases by $3.6 million, bringing the total augmentation to $24.8 million. | ***Modify.*** Provide either (1) $50 million to fund program under rules enacted last year or (2) $8 million to fund program under its historical rules. |
| **School Climate initiative** | Provides $15 million for a pilot program for addressing "school climate" issues. | ***Reject.*** Proposal has few details and is poorly justified. |
| **K-12 Strong Workforce** | Provides an additional $2 million for program administration. | ***Reject.*** Support high school CTE either through LCFF or through an approach similar to the CTE Incentive Grant Initiative. |
| **County offices of education (COEs)** | Decreases January augmentation by $1 million and clarifies COEs' role in supporting low-performing districts. | ***Modify.*** Require COEs to help districts identify and respond to performance issues. Require COEs to use existing LCFF funds. |
| **COE lead agencies and special education lead agencies** | Makes modest changes to lead agencies' roles. | ***Reject.*** Role of lead agencies is duplicative of COEs and CCEE. Additionally, core function of special education lead agencies is unclear. |
| **California Collaborative for Educational Excellence** | Increases by $234,000 ongoing. | ***Adopt.*** Funding aligns with CCEE's proposed roles. |
| **Community Engagement Initiative** | Provides $13 million one time for CCEE and a lead agency to jointly administer professional learning networks focused on community engagement. | ***Reject.*** CCEE could use existing resources to administer professional learning networks focused on this topic. |

LCFF = Local Control Funding Formula; COLA = cost-of-living adjustment; ELPAC = English Language Proficiency Assessments for California; CDE = California Department of Education; CCEE = California Collaborative for Educational Excellence; and CTE = career technical education.

basic augmentation options in *The 2018-19 Budget: Proposition 98 Education Analysis*. For example, the Legislature could designate all the additional funds for increasing supplemental and/or concentration rates. In considering its augmentation options, we recommend the Legislature weigh competing priorities, such as alleviating broad-based cost pressures facing all districts versus addressing persistent achievement gaps among student groups.

***Recommend Rejecting Continuous Appropriation of LCFF COLA.*** The Governor's proposal to continuously appropriate the LCFF COLA would limit the ability of future Legislatures to build both the K-12 part of the budget and, in turn, the overall state budget. Deciding how much to augment LCFF is one of the most important—and costly—budget decisions the Legislature makes each year. In a year with a particularly high COLA rate (for example, 5 percent), the associated LCFF augmentation costs more than $3 billion. Though the Legislature historically has been inclined to provide a COLA to schools' general purpose funding, we believe making this decision as part of annual budget deliberations is important both for the sake of transparency and flexibility. Such flexibility is particularly important for helping the state build its budget in any given year, as fiscal conditions change—allowing for augmentations beyond COLA in some years and not supporting any augmentation in other years. For these reasons, we recommend rejecting the proposed continuous appropriation and maintaining the state's current practice of providing LCFF augmentations as part of the regular budget process.

***Reject Computer-Based ELPAC Proposal, Revisit Next Cycle.*** A computer-based ELPAC likely would have advantages over the pencil-and-paper version. For example, computer-based assessments typically allow for more timely feedback to teachers and students. The May Revision proposal, however, seems particularly expensive. In developing the pencil and paper ELPAC, the state already completed the most challenging elements of test design, such as developing questions and ensuring validity. By contrast, converting an existing test from pencil and paper to computer based should be relatively inexpensive. The proposed cost for this conversion, however, is more than twice what was originally requested to develop the pencil-and-paper version. Consequently, we recommend the Legislature reject this proposal. Given the potential benefits of a computer-based exam, the Legislature could invite the Department of Finance (DOF) and the California Department of Education (CDE) to submit a new budget proposal next year which either reduces the estimated cost or better justifies the cost.

***Withhold Recommendation on Alternative ELPAC Pending Additional Information.*** School districts' current practice of selecting alternative assessments on a case-by-case basis for students with disabilities might be resulting in some students not being assessed appropriately. In addition, CDE indicates the case-by-case method of selecting alternative assessments might violate federal law, which requires that all students receive an appropriate assessment of their English proficiency. The state, however, has never before had such an assessment. Additionally, CDE estimates that only about 8,000 students take an alternative assessment each year. Moreover, we do not have sufficient information at this time to know whether the proposed cost is justified, as the documentation CDE provided does not clearly separate the costs of developing the alternate ELPAC from the costs of converting the traditional ELPAC from pencil to computer based. Were the Legislature interested in authorizing a new English proficiency assessment for students with disabilities, it could request DOF and CDE to submit better documentation. Specifically, it could request more information about (1) relevant federal requirements (including whether the federal government has issued any formal complaints against California's current practice) and (2) the cost of developing the alternative assessment.

***Recommend One of Two Approaches on CSFGP Backfill.*** Last year, the state increased the maximum per-student CSFGP award from $750 to $1,117. The increase was driven by two main considerations: (1) the original $750 rate established in 2001 had never received a COLA and (2) the program had unspent funds that could support the award increase. Despite this understanding last year, revised budget estimates show that a sizeable augmentation will be needed in 2017-18 to fund the higher award amount. To address this situation, we recommend the Legislature take one of two actions. It could fund the program consistent with the new statutory rules. We estimate this would cost $24 million (or $3 million more than the May Revision proposal). Alternatively, it could provide $3 million to ensure no charter school receives less in 2017-18 than 2016-17. This latter option helps to address an unintended consequence of last year's budget decisions, while positioning the Legislature were it to want to rescind the 2017-18 actions moving forward (as discussed below).

***Recommend One of Two Approaches on Ongoing CSFGP Augmentation.*** Regarding the ongoing augmentation, we believe the administration still is underestimating the likely growth in program costs. If the Legislature wishes to fund the program under current statutory rules, we estimate it would need to provide an augmentation of $50 million (relative to the Governor's January budget, for total program funding of $162 million). Alternatively, if the Legislature wishes to rescind last year's increase in the maximum grant award and return to funding the program under its historical $750 maximum per-student award, we estimate it would need to provide an augmentation of $8 million (also relative to the Governor's January budget, for total program funding of $120 million).

***Reject School Climate Proposal.*** The administration has not clearly identified what school climate issues it wants to address that have not already been addressed through other state and local efforts. Importantly, the state's earlier $30 million MTSS grant was intended to address many of the general issues of school climate that the administration is now highlighting. The administration also has not explained how the proposed funds are to be used, nor has it submitted an expenditure plan for use of the funds. For all of these reasons, we recommend the Legislature reject this proposal.

***Continue to Have Overarching Concerns With K-12 Strong Workforce Proposal.*** We recommend rejecting the Governor's approach to supporting high school CTE, including rejecting the $2 million May Revision augmentation. As we discussed in *The 2018-19 Budget: Proposition 98 Education Analysis*, we believe the Governor's approach is inconsistent with the state's broader approach of supporting local control and fails to leverage CDE's existing expertise in high school CTE. We continue to recommend the state support CTE through LCFF or else adopt a categorical approach similar to the existing CTE Incentive Grant Initiative.

***Recommend Further Clarifying COEs' Role.*** We recommend the Legislature provide greater clarity regarding the role of COEs in supporting districts. Specifically, we recommend requiring COEs to help districts (1) determine their strengths and weaknesses and (2) implement effective strategies to address identified weaknesses. A COE could be exempt from these activities if the district demonstrates it is working with another entity to perform them. A COE also could request that CCEE provide the assistance directly to the district. Given COEs' existing levels of LCFF funding specifically intended for district support, we recommend not providing any additional funding to COEs for these activities.

***Continue to Recommend Rejecting Lead Agencies Proposal.*** We continue to have concerns that the administration's lead agencies proposal is duplicative of existing entities and blurs the lines of accountability across numerous support providers. Notably, the COE lead agencies are tasked with supporting districts—a key COE responsibility.Their other core responsibility—supporting COEs—is a key CCEE responsibility. In addition, the proposal does not clarify the role of special education lead agencies. For these reasons, we recommend rejecting the proposals.

***CCEE Does Not Need Additional Funding to Focus on Community Engagement.*** We recommend rejecting the Governor's proposal to set aside funding for CCEE and another lead agency to establish community engagement professional learning networks. The CCEE currently administers 56 professional learning networks on a variety of topics. If the Legislature is interested in more focus on community engagement, it could add provisional budget language requiring CCEE to undertake such work using its existing funding.

# CHILD CARE AND PRESCHOOL

***Child Care and Preschool Funding Down Slightly From Governor's Budget.*** Figure 5 compares child care and preschool funding under the Governor's January budget with the May Revision. Compared to the Governor's January budget, the May Revision reduces total child care and preschool funding by $40 million. Though overall funding is down, non-Proposition 98 General Fund increases $124 million and support from the federal Child Care and Development Fund (CCDF) increases $17 million. These increases are offset by a $121 million reduction in Proposition 98 General Fund and a $59 million reduction in federal Temporary Assistance for Needy Families (TANF) funding. Under the May Revision, total 2018-19 funding for child care and preschool programs is $4.3 billion.

***May Revision Makes a Few Notable Adjustments to Funding.*** Figure 6 (see next page) summarizes May Revision proposals for child care and preschool programs, including the California Work Opportunity and Responsibility to Kids (CalWORKs) child care programs, non-CalWORKs programs, and the California State Preschool Program. Below, we describe and assess these proposals.

**Figure 5**

**Comparing Child Care and Preschool Funding Under Governor's Budget and May Revision**

*(In Millions)*

| | 2018-19 | | |
|---|---|---|---|
| | Governor's Budget | May Revision | Change |
| Proposition 98 General Fund | $2,117 | $1,996 | -$121 |
| Non-Proposition 98 General Fund | 1,240 | 1,364 | 124 |
| Federal Child Care and Development Fund | 626 | 644 | 17 |
| Federal Temporary Assistance for Needy Families | 389 | 330 | -59 |
| Federal Title IV-E of the Social Security Act | 9 | 10 | —[a] |
| **Totals** | **$4,383** | **$4,343** | **-$40** |

[a] Less than $500,000.

## Major Changes

***Increases CalWORKs Child Care Spending by $104 Million in 2018-19.*** The May Revision is based on updated data regarding CalWORKs child care caseload and cost of care. Under the administration's estimates, caseload is up but cost of care in down since January. Specifically, the administration assumes caseload is up about 13,000 cases (about 5,000 Stage 2 cases and 8,000 Stage 3 cases). The associated cost increase is $120 million. This increase is offset by a $16 million reduction in the administration's average cost of care estimates. The administration assumes average cost of care decreases from $9,614 (January) to $9,529 (May) for Stage 2 and from $9,295 (January) to $8,973 (May) for Stage 3.

***Changes Fund Source but Maintains Inclusive Early Education Expansion Initiative.*** The Governor's January budget funded this initiative using $125 million 2018-19 Proposition 98 General Fund and $42 million TANF. The May Revision eliminates the TANF funds used for the initiative and funds the entire $167 million with 2017-18 Proposition 98 General Fund. The May Revision largely maintains the original programmatic aspects of the proposal, making only modest changes intended to clarify certain aspects of the initiative. The initiative still would provide grants to school districts and other child care and preschool providers, with the intent of helping staff work with children who have special needs and ensuring facilities are equipped to serve these students.

***Provides Increase for Quality Improvement Activities.*** The May Revision provides $26 million one-time federal carryover funds for quality improvement activities, an increase of $17 million from the January budget. These funds represent prior-year funding that remain unspent. We have no concerns with this proposal.

***Includes $4 Million to Increase COLA for Non-CalWORKs Child Care Programs.*** The May Revision provides $4 million to increase the COLA for non-CalWORKs child care and preschool programs from 2.51 percent to 2.71 percent. The COLA is statutory for most child care programs. We have no concerns with this proposal.

***Provides $624,000 for CDE State Operations.*** The May Revision increases CDE state operations funding for state-level administration of county child care pilot programs. Legislation enacted in 2017 increased the number of county pilots from 4 to 13. The county pilots can adopt policies that differ from state law—such as higher income eligibility thresholds or higher reimbursement rates—but must have their plans approved by CDE.

## Assessment and Recommendations

Figure 7 summarizes our recommendations for the most notable May Revision child care and preschool proposals. We provide our assessment of these proposals below.

***Despite Large May Revision Augmentation, Governor Likely Underestimates Caseload.*** CalWORKs Stage 2 and Stage 3 caseload has increased substantially during 2017-18 due to major policy changes the Legislature adopted last year. Specifically, the 2017-18 budget substantially increased the exit income threshold (from $42,216 per year to $63,235 per year for a family of three) and allowed families to demonstrate eligibility only once a year (rather than maintaining eligibility throughout the year). These changes have reduced significantly the number of families that exit the CalWORKs Stage 2 and Stage 3 child care

**Figure 6**

**Comparing Child Care and Preschool Proposals Under Governor's Budget and May Revision**

*2018-19 (In Millions)*

| Change | Governor's Budget | May Revision | Change |
|---|---|---|---|
| **Reimbursement Rates** | | | |
| Provides COLA to certain child care and preschool programs[a] | $50 | $54 | $4 |
| Increases Standard Reimbursement Rate (SRR) 2.8 percent starting July 1, 2018 | 48 | 48 | 0 |
| Annualizes Regional Market Rate (RMR) increase initiated January 1, 2018 | 24 | 24 | 0 |
| Permanently extends RMR hold harmless provision[b] | 14 | 14 | 0 |
| Subtotals | ($136) | ($140) | ($4) |
| **Caseload and Cost of Care** | | | |
| Annualizes cost of State Preschool slots initiated April 1, 2018 | $19 | $19 | $0 |
| Provides 2,959 full-day State Preschool slots at LEAs starting April 1, 2019 | 8 | 8 | 0 |
| Makes CalWORKs caseload and average cost of care adjustments | –[c] | 105 | 104 |
| Reduces non-CalWORKs slots by 0.48 percent[d] | -9 | -9 | 0 |
| Subtotals | ($19) | ($123) | ($104) |
| **Other** | | | |
| Funds one-time early education expansion grants[e] | $167 | $0 | -$167 |
| Adjusts Transitional Kindergarten for increases in attendance and LCFF funding rate | 41 | 42 | 1 |
| Provides one-time increase to quailty services | 9 | 26 | 17 |
| Annualizes funding for bridge program for foster children initiated January 1, 2018 | 20 | 21 | 1 |
| Makes other technical adjustments | 7 | 7 | 0 |
| Subtotals | ($244) | ($96) | (-$148) |
| **Totals** | **$399** | **$359** | **-$40** |

[a] Under Governor's January budget, COLA is 2.51 percent. Under May Revision, COLA is 2.71 percent.

[b] Under current law, the RMR hold harmless provision expires December 31, 2018.

[c] Less than $500,000.

[d] Reflects statutory adjustment based on the projected decrease in the birth-through-four population.

[e] Governor's January budget funds proposal using 2018-19 Proposition 98 General Fund and Temporary Assistance for Needy Families. May Revision funds proposal entirely using 2017-18 Proposition 98 General Fund.

COLA = cost-of-living-adjustment; LEA = local education agency; and LCFF = Local Control Funding Formula.

**Figure 7**

**Summary of Child Care and Preschool Recommendations**

| Issue | May Revision Proposal | LAO Recommendation |
|---|---|---|
| **CalWORKs child care** | Increases spending by $104 million due to changes in Stage 2 and Stage 3 caseload. | ***Modify.*** Provide at least $154 million ($50 million more than May Revision) for CalWORKs Stage 2 and Stage 3 caseload to mitigate the risk of having a midyear shortfall. |
| **Inclusive Early Education Expansion Initiative** | Replaces $42 million in TANF funding with Proposition 98 General Fund. Scores all $167 million Proposition 98 General Fund to 2017-18 rather than 2018-19. | ***Reject.*** One-time funding is unlikely to improve program quality on a lasting basis and facility needs could be funded through the state's existing revolving loan program. |
| **Subsidized county child care pilot programs** | Increases CDE state operations by $624,000 to administer 13 child care pilot programs previously authorized by the Legislature. | ***Reject and Revisit Next Year.*** Require CDE to provide better documentation to justify need for additional staff. |

TANF = Temporary Assistance for Needy Families and CDE = California Department of Education.

programs. The administration's estimate assumes recent growth in the programs slows down. We estimate caseload in 2018-19 to be at least 6,500 slots above the administration's estimate. Our estimate assumes monthly caseload trends in 2017-18 continue into 2018-19. We recommend providing at least $154 million ($50 million more than May Revision) for CalWORKs Stage 2 and Stage 3 caseload to mitigate the risk of having a midyear shortfall in the programs.

***Continue to Recommend Rejecting Early Education Expansion Initiative.*** We continue to have concerns that the Governor's one-time initiative is unlikely to provide the type of ongoing training required to ensure child care and preschool providers are equipped to serve children with special needs. If the Legislature is interested in increasing professional development opportunities in this area, it could reallocate some of the roughly $45 million in existing quality improvement funding used for training. The May Revision also includes $17 million in federal carryover for quality improvement activities in 2018-19. Furthermore, California expects to receive $231 million in additional federal CCDF funding in each of the next two years. Some of this funding also could be used for more professional development focused on serving children with special needs. We also remain concerned that the initiative does not use the state's existing Child Care Facilities Revolving Fund (CCFRF) to promote facility improvements. We recommend the Legislature improve the existing program before allocating new state funding for the same purpose. Given the existing program has been underutilized, we recommend modifying the program to make it more attractive to providers. For example, the Legislature could allow the program to fund a broader array of facility costs.

***Recommend Rejecting State Operations Increase and Revisiting Next Year.*** We recommend the Legislature reject the proposed CDE state operations augmentation and revisit the issue next year. Although CDE submitted some staffing information in fall 2017, this material was submitted prior to the enactment of legislation in March intended to streamline administrative oversight of the pilot programs. Additionally, CDE has not yet provided sufficient documentation detailing what previous administrative work it no longer has to do on behalf of the counties now participating in the pilot programs. The department could provide revised documentation this fall to justify the need for additional staff.

# COMMUNITY COLLEGES

***Community College Funding Up $52 Million Across Period.*** Figure 8 compares total funding for the California Community Colleges (CCC) under the Governor's January budget with the May Revision. The May Revision provides an additional $52 million in Proposition 98 funding for community colleges across the 2016-17 through 2018-19 period. Under the May Revision, total Proposition 98 funding for community colleges in 2018-19 is $9.2 billion, reflecting an increase of $518 million (6 percent) over the revised 2017-18 level. Proposition 98 funding per full-time equivalent (FTE) student is $8,078, an increase of $447 (6 percent) over the revised 2017-18 level.

***May Revision Contains Mostly New Ongoing CCC Proposals.*** Though CCC Proposition 98 funding that counts toward the minimum guarantee is up $52 million over the period, notable CCC May Revision spending proposals total $39 million. The difference is largely due to certain automatic cost increases that reduce the amount available for new spending. Of the new CCC proposals in the May Revision, $38 million is for ongoing programs and a net of $1 million is for one-time initiatives. Figure 9 shows these proposals. Below, we describe and assess them. We focus first on changes to the apportionment proposal, then cover other major changes, and end by highlighting a few other notable proposals.

## Major Revisions to Apportionment Proposal

***Makes Major Modifications to Funding Formula Proposal.*** The May Revision includes several major modifications to the January proposal for a new apportionment funding formula, as described below.

***Changes Value of Formula Components.*** The May Revision proposal provides 60 percent of apportionment funding based on enrollment, 20 percent based on low-income student counts, and 20 percent based on performance. The corresponding shares in January were 50/25/25.

***Excludes Noncredit Funding.*** The May Revision excludes noncredit funding from the new formula. Apportionments for noncredit enrollment would be allocated based on current law.

***Uses Three-Year Rolling Average for Enrollment Funding.*** Allocation for the enrollment portion of the new funding formula would be based on average enrollment for the past three years. Under current law, community college districts are funded based on the higher of current-year or prior-year enrollment.

**Figure 8**

**Comparing CCC Proposition 98 Funding Under Governor's Budget and May Revision**

*(Total Funding in Millions)*

| | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|
| **Governor's Budget** | | | |
| General Fund | $5,473 | $5,682 | $6,066 |
| Local property tax | 2,809 | 2,972 | 3,141 |
| **Totals** | **$8,283** | **$8,654** | **$9,207** |
| FTE students | 1,134,809 | 1,135,081 | 1,136,813 |
| Dollars per FTE student | $7,299 | $7,624 | $8,099 |
| **May Revision** | | | |
| General Fund | $5,473 | $5,757 | $6,129 |
| Local property tax[a] | 2,822 | 2,934 | 3,080 |
| **Totals** | **$8,295** | **$8,691** | **$9,209** |
| FTE students | 1,124,320 | 1,138,947 | 1,139,978 |
| Dollars per FTE student | $7,378 | $7,631 | $8,078 |
| **Change** | | | |
| General Fund | — | $75 | $63 |
| Local property tax | $13 | -38 | -61 |
| **Totals** | **$12** | **$37** | **$2** |
| FTE students | -10,489 | 3,866 | 3,165 |
| Dollars per FTE student | $79 | $7 | -$21 |

[a] Does not include estimated $18.8 million over the three-year period related to a property tax settlement with Orange County.

FTE = full-time equivalent.

***Changes Metrics for Supplemental Grants.*** The May Revision proposal provides districts additional funding for every student who is (1) a Pell Grant recipient, (2) 25 years or older and receiving a need-based fee waiver, or (3) undocumented and qualifying for resident tuition. The January proposal distributed this funding based on the total number of all students receiving a need-based fee waiver and the number of first-time freshman receiving a Pell Grant.

***Includes More Performance Metrics.*** As **Figure 10** (see next page) shows, the May Revision includes a more complex set of performance metrics. The proposal includes different award amounts for obtaining various degrees and certificates, completing transfer-level math and English within a student's first year, and having students obtain a regional living wage within a year of completing community college. It also includes additional award amounts for the outcomes of Pell Grant students. The January proposal had fewer performance metrics and did not provide additional funding for outcomes of any specific student groups.

**Figure 9**

**Comparing CCC Proposition 98 Proposals Under Governor's Budget and May Revision**

*Reflects New Spending, 2016-17 Through 2018-19 (In Millions)*

| | Governor's Budget | May Revision | Change |
|---|---|---|---|
| **Ongoing** | | | |
| Fund high school CTE initiative through Strong Workforce program | $212 | 214 | $2 |
| Hold districts harmless for transition to new apportionment formula | 175 | 175 | — |
| Provide COLA for apportionments | 161 | 173 | 12 |
| Fund 1 percent enrollment growth | 60 | 60 | — |
| Provide COLA for select student support programs[a,b] | 33 | 34 | 2 |
| Fund AB 19 fee waivers for first-time full-time students | 46 | 46 | — |
| Fund consolidated financial aid program | 33 | 41 | 8 |
| Provide ongoing support for new online college | 20 | 20 | — |
| Increase funding for Apprenticeship Programs | 14 | 19 | 5 |
| Fund adult education data system alignment | 5 | 5 | — |
| Fund financial aid and processing improvements | — | 5 | 5 |
| Augment NextUp program for foster youth | — | 5 | 5 |
| Subtotals | ($759) | ($796) | ($38) |
| **One Time** | | | |
| Fund deferred maintenance and instructional equipment | $275 | $144 | -$132 |
| Ensure 2018-19 apportionment funding increases by at least 2.71 percent | — | 104 | 104 |
| Provide one-time support for new online college | 100 | 100 | — |
| Cover Apprenticeship prior-year shortfalls | 31 | 37 | 6 |
| Fund Innovation Awards | 20 | 20 | — |
| Fund financial aid technology improvements | — | 14 | 14 |
| Develop open educational resources | — | 6 | 6 |
| Fund certified nursing assistant program | 2 | 2 | — |
| Backfill for fire-related property tax declines | — | 2 | 2 |
| Fund Puente program | — | 1 | 1 |
| Fund course identification numbering system | — | 1 | 1 |
| Subtotals | ($428) | ($429) | ($1) |
| **Totals** | **$1,186** | **$1,225** | **$39** |

[a] COLA increased from 2.51 percent under the Governor's Budget to 2.71 percent under the May Revision.

[b] Applies to Extended Opportunity Programs and Services, Disabled Students Programs and Services, CalWORKs student services, and the campus child care support. For the Adult Education Block Grant, includes a 4.1 percent COLA in January and a 4.3 percent COLA in May.

CTE = Career Technical Education and COLA = cost-of-living adjustment.

***Provides More Generous "Hold Harmless" Provisions.*** The May Revision expands the fiscal protections provided to districts in transitioning to a new funding formula. Most notably, it provides $104 million to ensure districts' 2018-19 allocations are no less than their 2017-18 allocations, adjusted by COLA (2.71 percent). For 2019-20, no district would receive less apportionment funding than it received in 2017-18. Beginning in 2020-21, districts would receive no less than their FTE enrollment multiplied by their 2017-18 per-student funding rate. The Governor's January proposal ensured districts' 2018-19 funding levels were no less than 2017-18, with the hold harmless based on 2017-18 per-student funding beginning in 2019-20.

## Other Major Changes

***Consolidates Three Student Support Programs Into New Block Grant.*** The May Revision combines the Student Success and Support Program, including funding for student equity plans, and the Student Success for Basic Skills Students program into a new block grant—the Student Equity and Achievement Program. As a condition of receiving funds, districts would be required to develop student equity plans, deliver student matriculation services (such as orientation, counseling, and advising), and adopt assessment and placement policies, as specified under current law. Funding for the new program would be based on districts' 2017-18 allocations for the existing categorical programs. In January, the Governor tasked the Chancellor's Office with developing a proposal to consolidate existing categorical programs and provide greater flexibility for districts. The May Revision reflects the Chancellor's Office proposal.

***Makes Several Modifications to Online Community College Proposal.*** The May Revision makes various changes to the Governor's online community college proposal. Regarding governance, the May Revision identifies the Board of Governors as the governing board of the online college, with authority to choose the president of the college. The president of the college would be required to establish an advisory council that includes local trustees from other community colleges as well as employees of the online college. Regarding collective bargaining, the proposal requires the online community college to bargain with its employees through a contract with a local community college district. The proposal also requires the online college to comply with the same disability and accessibility requirements for students with disabilities that apply to other community colleges. Additionally, the proposal requires the Workforce Development Board and

**Figure 10**

**Comparing Performance Funding Under Governor's Budget and May Revision**

| Outcome Measure | Award for Each Student | Additional Award for Each Pell Grant Recipient |
|---|---|---|
| **Governor's Budget** | | |
| Degree, certificate, and/or transfer completed within three years | $6,395 | — |
| Chancellor's Office-approved degree, certificate, and award | 5,533 | — |
| Associate degree for transfer | 976 | — |
| **May Revision** | | |
| Associate degree for transfer | $3,504 | $2,640 |
| Associate degree | 2,628 | 1,980 |
| Credit certificate requiring 18 or more units | 1,752 | 1,320 |
| Transfer-level math and English courses completed within the student's first academic year of enrollment | 1,752 | 1,320 |
| Transfer to a four-year university | 1,314 | 990 |
| Nine or more career technical education units completed | 876 | 660 |
| Regional living wage obtained within one year of community college completion | 876 | 660 |

Employment Development Department to determine whether programs offered by the online college have job market value while the college is seeking accreditation.

***Reduces Deferred Maintenance Spending by $132 Million.*** The May Revision provides $144 million for this purpose—down from the $275 million the Governor had proposed in January. The reduction effectively is required to accommodate the May Revision proposal to the increase one-time funding for certain districts as part of the expanded apportionment formula hold harmless provision.

## Other Changes

***Proposes $13.5 Million One Time and $5 Million Ongoing to Upgrade Financial Aid Technology.*** The May Revision provides 2017-18 one time funds so colleges can acquire more advanced financial aid processing and management systems. The stated intent of these proposed upgrades is to (1) reduce the financial aid processing that colleges currently undertake manually, thereby freeing up staff time for direct financial aid advising; and (2) support colleges' capacity to implement the Governor's proposed Student Success Completion Grant, which would require financial aid staff to provide different awards depending on the number of units students take. (The administration indicates that colleges' current financial aid processing systems generally are not set up to calculate students' unit loads and make related adjustments to grant amounts.) The May Revision also includes $5 million ongoing for subscription, maintenance, and training costs related to the technology upgrades.

***Provides $14 Million Ongoing to Cover Higher COLA.*** The May Revision increases the COLA for apportionments and selected categorical programs from 2.51 percent to 2.71 percent based on updated data. We have no concerns with this proposal.

***Increases Apprenticeship Funding by $5.9 Million One Time and $4.8 Million Ongoing.*** The Governor's January budget included $30.6 million in one-time retroactive reimbursements to apprenticeship sponsors (such as labor unions and businesses) to backfill for pro-rata reductions that occurred between 2013-14 and 2017-18. The May Revision provides an additional $5.9 million for this purpose. This increase is due to updated estimates of the total number of instructional hours that sponsors provided apprentices in 2016-17 and 2017-18 and the amount of pro-rata reductions applied those years. The January budget also proposed $13.8 million ongoing to fund the same level of instructional hours in 2018-19 as the estimated level in 2017-18. The May Revision provides an additional $4.8 million ongoing, which is the net effect of three changes: (1) a higher estimated number of instructional hours provided by sponsors in 2017-18 ($5.6 million); (2) the transition of California Apprenticeship Initiative grantees into the regular apprenticeship program, whereby they earn hourly reimbursement ($1.3 million); and (3) a correction to the hourly instructional rate, resulting in a reduction from $6.49 in the Governor's January budget to $6.26 (-$2.0 million).

***Provides Additional $7.8 Million Ongoing for Proposed Student Success Completion Grant.*** The Governor's January budget included $124 million ongoing to create a financial aid program called the Student Success Completion Grant. The proposed program would consolidate two existing aid programs and change the underlying award rules. The May Revision adds $7.8 million to reflect revised estimates of students expected to be eligible for a Student Success Completion Grant in 2018-19.

***Proposes $6 Million One Time for Open Educational Resources (OER).*** The May Revision provides $6 million in 2017-18 Proposition 98 funding for the Chancellor's Office to contract with a community college district or group of districts to develop and expand the use of OER. Proposed funding would be used for various purposes, including (1) identifying courses that currently lack OER; (2) providing grants to faculty to create OER; (3) acquiring a technology platform for editing and storing OER; and (4) raising awareness among and providing technical assistance to faculty throughout the CCC system about adopting OER for their courses.

***Increases NextUp Program for Foster Youth by $5 Million.*** The May Revision increases by

$5 million funding for the NextUp Program, which provides support services for current and former foster youth enrolled in the community colleges. The program—also known as the Cooperating Agencies Foster Youth Educational Support Program—initially received $15 million in 2015-16 and was authorized to operate in up to 10 community college districts. Chapter 722 of 2017 (SB 12, Beall) authorized up to 20 districts to participate in the program, but it did not provide additional funding to support the expansion.

***Provides $685,000 One Time for Course Identification Numbering (C-ID) System.*** The May Revision provides this funding to the CCC Academic Senate in support of the C-ID system. This system, which was created in 2007, is intended to promote common numbering of comparable courses offered by college campuses. (For example, a college algebra course numbered "C-ID Math 150" would reflect the same basic course content regardless of which college campus offered it.) Faculty groups develop and review "C-ID descriptors" for courses. These descriptors include basic information about the course, such as the topics that are covered, how students are evaluated (such as through research papers), and sample textbooks or other instructional materials that are commonly used. Campus courses that match a particular descriptor are assigned that same C-ID course identifier. All course descriptor information can be accessed on a C-ID website.

## Assessment and Recommendations

Figure 11 summarizes of our recommendations for the May Revision CCC proposals. We provide our assessment of the most notable of these proposals below.

***Recommend Adopting Funding Formula Framework but Delaying Implementation.*** The Governor's revisions to the funding formula proposal address many of the concerns raised by our office and various stakeholders over the past few months. Most notably, the proposal provides greater performance-based funding for the outcomes of low-income students, ensuring that colleges have a strong incentive to focus on improving outcomes for students most likely to need additional support. Although the proposal is a notable improvement, we have concerns that the Legislature will not have time before budget closeout to thoroughly review and vet some of the specific changes proposed in the May Revision. For example, the administration has not yet shared a district-level analysis of the impact of the new formula or explained how providing additional performance funding based on the number of Pell Grant recipients—rather than the number of students receiving need-based fee waivers—would affect the way funds are distributed. To allow more time for review of the specific components of the new formula, we recommend the Legislature adopt the May Revision framework as part of budget closeout but work out specific details of the formula in legislation this summer and then begin implementing the new formula in 2019-20. By waiting to transition until 2019-20, the Legislature would free up $279 million in hold harmless funding ($175 million included in January and $104 million added in the May Revision) that could be used for other one-time priorities, such as deferred maintenance.

***Consider Including Other Student Support Programs in Block Grant and Modifying Allocation.*** We recommend the Legislature consolidate the three student support programs identified in the May Revision into a block grant but also consider adding other student support categorical programs. The state currently funds nine other student support programs. We recommend revisiting how to allocate the block grant funding depending upon whether other categorical programs are added to the new block grant and whether the Legislature adopts a new apportionment funding formula that has a component focused on supporting low-income students. Ultimately, we think the allocation method should be designed such that block grant funding complements other community college funding streams and is well aligned to the expectations regarding the objective of the block grant funds.

***Recommend Rejecting Online Community College Proposal.*** The May Revision changes to the online community college proposal do not address the key concerns we had with the Governor's January proposal. Most importantly, the proposal does not identify specific problems within

**Figure 11**

**Summary of CCC Recommendations**

| Issue | May Revision Proposal | LAO Recommendation |
|---|---|---|
| **Apportionment funding formula** | Makes numerous changes to January proposal. | ***Modify.*** Adopt general framework as part of budget closeout but delay implementation until 2019-20. Work out details of formula components in legislation this summer. |
| **Categorical program consolidation** | Consolidates funding for Student Success and Support Program, student equity plans, and Student Success for Basic Skills Students program into block grant. | ***Modify.*** Consider including other student support programs in block grant and revisit allocation method after making other related decisions. |
| **Online community college** | Makes numerous changes to January proposal. | ***Reject.*** Explore systemwide improvements to existing programs for working adults. |
| **Enrollment growth** | Makes no changes to 2017-18 and maintains 2018-19 January proposal to fund 1 percent growth. | ***Modify 2017-18 Proposal.*** Reduce 2017-18 funding by $25 million to reflect updated attendance data and redirect freed-up funds to deferred maintenance or other one-time priorities. Adopt 2018-19 January proposal. |
| **Deferred maintenance** | Reduces amount by $132 million, bringing total to $144 million one time. (Down from $275 million in January.) | ***Adopt.*** Provide at least the amount proposed by the Governor. Consider increasing funding if other one-time funding is freed up. |
| **Financial aid technology** | Provides $13.5 million one time and $5 million ongoing for campuses to upgrade financial aid processing and management systems. | ***Reject.*** State already provides campuses with funding for basic operating costs such as technology and software. |
| **Apprenticeship programs** | Increases one-time funding by $5.9 million and ongoing funding by $4.8 million. | ***Reject One-Time Funding and Modify Ongoing Funding.*** Add $9.4 million ongoing to accommodate projected 2018-19 growth in apprenticeship instructional hours. |
| **Student Success Completion Grants** | Increases ongoing funding by additional $7.8 million. | ***Reject.*** Pursue a more holistic and straightforward approach to covering unmet living costs for financially needy students. |
| **Open Education Resources** | Provides $6 million one time. | ***Modify.*** Provide proposed funding but add an annual reporting requirement. |
| **NextUp Program** | Increases by $5 million ongoing to expand program to 10 additional colleges. | ***Modify.*** Adopt increase in funding but consider consolidating program with other student support programs and giving foster youth first call for funds. |
| **Course Identification Numbering system** | Provides $685,000 one time to CCC Academic Senate to support system. | ***Reject.*** Direct Department of Finance to develop funding plan that aligns desired improvements with an appropriate (ongoing) funding source. |

the community college system that prevent working adults from accessing existing programs, nor does it clarify how a new online community college would better meet the needs of working adults. Rather than create a new college, we recommend the Legislature reject the proposal and explore systemwide improvements designed to improve services for working adults with no postsecondary credentials.

***Recommend Reducing 2017-18 Enrollment Funding.*** Based on recent attendance reports, we estimate the state will have at least $25 million in unused enrollment growth funding for the current year. The Legislature could redirect this funding to deferred maintenance or other one-time Proposition 98 priorities. Though data indicate 2017-18 enrollment funding is overbudgeted, the amount needed for 2018-19 enrollment funding is less clear at this point. This is because recent policy changes could be spurring an increase in student demand, but modeling the exact effect of the policy changes is difficult. For this reason, we recommend the Legislature wait to adjust 2018-19 enrollment funding until better information is available next year.

***Recommend Funding Deferred Maintenance.*** Given CCC has a substantial backlog of deferred maintenance, we recommend approving the May Revision proposal to reduce this backlog. We also recommend the Legislature designate any other one-time funds it may free up through other budget decisions for deferred maintenance. Addressing deferred maintenance issues earlier rather than later often can prevent the need for more expensive maintenance repairs in future years.

***Recommend Rejecting More Funding for Financial Aid Technology.*** Each year, the state provides funds to community colleges to support their operating costs. The colleges use these monies to cover personnel salaries and benefits, utilities, software and technology, and other basic costs. Over the past several years, the Legislature has provided community colleges with hundreds of millions of dollars in additional discretionary funds to support these types of operating costs. Moreover, the California Student Aid Commission is currently developing a new financial aid technology system intended to streamline financial aid processing for campuses. For these reasons, we recommend the Legislature reject the May Revision proposal to provide additional CCC funding for financial aid technology.

***Continue to Recommend Rejecting Funding Prior-Year Apprenticeship Costs.*** We recommend the Legislature reject the May Revision proposal to provide even more funding retroactively to apprenticeship sponsors for prior-year costs. State law makes clear that if funding is insufficient to cover all apprenticeship hours in any given year, sponsors are to make adjustments to stay within the overall budget allocation, such that sponsors should not be expecting retroactive funding. Furthermore, the number of instructional hours provided by apprenticeship sponsors grew rapidly the past few years, even as the state was pro-rating reimbursement rates downward.

***Recommend Providing $9.4 Million Ongoing Augmentation for Apprenticeships in 2018-19.*** As regards ongoing funding for apprenticeships in 2018-19, we recommend providing $9.4 million more than the May Revision—for a total year-over-year augmentation of $32 million. Whereas the May Revision funds 2018-19 instructional hours at the 2017-18 level, we estimate 15 percent year-over-year growth in hours. This rate reflects average annual growth in apprenticeship instructional hours over the past five years. Moving forward, we continue to recommend the Legislature annually adjust the number of apprenticeship instructional hours it funds so that the hours the state reimburses moves up and down with demand for apprentices.

***Continue to Recommend Rejecting Proposal for Restructured Student Completion Grants.*** As we discussed in *The 2018-19 Budget: Higher Education Analysis*, we believe the administration's proposal to consolidate and restructure two financial aid programs would make the underlying award rules even more complex and would further complicate the financial aid landscape for students and administrators. We continue to recommend the Legislature take a more holistic and straightforward approach—consolidating all four existing state financial aid programs into one program with one set of rules. In this vein, we recommend the Legislature reject the January and May Revision Completion Grant proposals. The May Revision proposal only makes a small funding adjustment based upon updated estimates of the students likely to be eligible for the proposed grants but makes no underlying programmatic improvements to the proposal.

***Recommend Approving Funding for OER but Adding Reporting Requirement.*** Based on our review of CCC's work plan for this May Revision proposal, we recommend the Legislature adopt the proposal. The May Revision proposal builds upon the state's efforts to date to expand the availability of free instructional materials. The May Revision proposal also is designed to reach a large number of faculty and, by extension, students. We recommend, however, that the Legislature add a reporting requirement to enhance oversight of these funds. Specifically, we recommend that the

Chancellor's Office provide annual reports over the next three years on the progress of the initiative. At a minimum, the annual reports should track (1) the number of OER materials that have been created with the funds, (2) the number and percentage of faculty at each campus that have adopted OER textbooks for their courses, (3) the number of students enrolled in course sections that use OER textbooks, and (4) the estimated average savings that these students have realized as a result of using OER.

***Recommend Adopting NextUp Program Augmentation but Consider Consolidating and Prioritizing Services for Foster Youth in New Block Grant.*** Given the Legislature recently enacted legislation to authorize expanding the NextUp program to additional colleges, we recommend adopting the augmentation. As part of its deliberation on consolidating categorical programs, however, we recommend the Legislature consider shifting the program into the new student support block grant. To ensure that colleges continue to provide support services to foster youth, the Legislature could require them to prioritize block grant funds for these students and other students who are the highest risk for dropping out and not meeting their educational goals.

***Recommend Rejecting C-ID Proposal and Revisiting Next Year.*** According to the CCC Academic Senate, it would like additional ongoing funding to sustain and enhance the C-ID system. The Academic Senate envisions making various improvements, such as (1) providing ongoing review of existing course descriptors, (2) developing new descriptors as courses emerge, and (3) maintaining the C-ID website. Though these activities generally are ongoing in nature, the May Revision provides one-time funding. We recommend the Legislature reject the May Revision proposal and direct DOF to come back next year with a proposal that aligns desired improvements with an appropriate funding source. (That is, next year's proposal should link ongoing improvements with ongoing funds and any one-time improvements with one-time funds.)

# CALIFORNIA STATE UNIVERSITY

***California State University (CSU) Core Funding Up $98 Million From January Levels.*** Figure 12 (see next page) compares state General Fund, tuition revenue, and other state funds (primarily lottery revenue) for CSU under the Governor's January budget and May Revision. Under the May Revision, combined CSU funding from these sources is $98 million higher than in January. CSU funding in 2018-19 is $190 million (2.7 percent) higher than the revised 2017-18 level. Under the May Revision, CSU's core funding reaches $7.2 billion in 2018-19. Below, we describe and assess the May Revision proposals for CSU. The May Revision contains a slight reduction in ongoing funding ($2 million) and $100 million increase for one-time purposes.

## Major Changes

***Revises Base General Fund Downward by $2 Million Compared With January.*** The May Revision adjusts CSU's ongoing General Fund support downward by $2 million to reflect recently revised state contribution rates for CSU pensions. The May Revision does not change the Governor's January proposal to provide a $92 million (2.4 percent) ongoing unrestricted increase for CSU (the same dollar amount the Governor proposes for the University of California).

***Proposes to Reduce General Fund Support if CSU Raises Tuition.*** The May Revision proposes provisional budget language that would allow the director of DOF to reduce CSU's General Fund appropriation were CSU to increase tuition levels in 2018-19. The proposed amount of any such reduction would equal the amount of estimated state costs to the Cal Grant and the Middle Class Scholarship programs resulting from a CSU tuition increase. The proposed provisional language would require the Finance director to provide notice to the Joint Legislative Budget Committee at least 30 days before making the reduction to CSU's General Fund support.

***Provides $100 Million for Deferred Maintenance.*** The May Revision provides $100 million one-time General Fund to address CSU's deferred maintenance backlog. This proposal is part of a larger May Revision package of deferred maintenance funding for numerous agencies statewide.

## Assessment and Recommendations

Figure 13 summarizes of our recommendations for the May Revision CSU proposals. We provide our assessment of these proposals below.

***Proposed Language on Linking CSU Funding With Tuition Decision Is Unnecessary This Year.*** Though we believe the Governor's idea of linking state General Fund and tuition decisions would help make for more rational and transparent budgeting, the May Revision language proposed for CSU is unnecessary this year. This is because Chapter 620 of 2012 (AB 970, Fong) prohibits CSU from approving tuition increases fewer than 90 days before the start of the fall term. Since fall classes are scheduled to begin by mid-August, CSU would be unable to raise tuition by the time the budget is enacted. Though the language is unnecessary this year, the Legislature prospectively could approve language linking the segment's state funding with tuition levels and authorize dollar-for-dollar reductions in state funding were CSU not to honor a tuition agreement it had made with the Legislature. (With tuition hikes off the table for the coming year, the Legislature would need to provide additional General Fund support in 2018-19 were iit to approve additional CSU funding priorities. We identify and assess CSU's key cost drivers in *The 2018-19 Budget: Higher Education Analysis*.)

***Recommend Adopting Deferred Maintenance Proposal but Require Plan for Eliminating Backlog.*** CSU estimates that campuses have accumulated a maintenance backlog of $2.7 billion, with $2 billion for facilities and the remainder for campus infrastructure. We think that providing funds for deferred maintenance is a reasonable use of one-time monies and recommend the Legislature adopt the May Revision proposal. In tandem with providing this funding, however, we recommend the Legislature require CSU to submit by December 1, 2018 a long-term plan for eliminating its existing backlog of deferred maintenance. This plan should identify funding sources and propose a multiyear schedule of payments. In addition, CSU estimates that it would need to set aside $142 million annually to prevent its maintenance backlog from growing. To prevent a growing or reemerging backlog in future years, we thus recommend the Legislature require CSU to identify ways to improve existing maintenance practices, including by setting aside the necessary level of funds for scheduled maintenance.

**Figure 12**

### Comparing Core Funding for CSU Under Governor's Budget and May Revision

*(In Millions)*

| | | 2018-19 | | | |
|---|---|---|---|---|---|
| | 2017-18 Revised | Governor's Budget | May Revision | Change | Year-to-Year Change at May Revision |
| **Core Funds** | | | | | |
| General Fund | | | | | |
| Ongoing[a] | $3,719 | $3,856 | $3,854 | -$2 | $135 |
| One time | 47 | 2 | 102 | 100 | 55 |
| Subtotals | ($3,765) | ($3,858) | ($3,956) | ($98) | ($190) |
| Tuition and Fees[b] | $3,168 | $3,168 | $3,168 | — | — |
| Other State Funds[c] | 53 | 53 | 53 | — | — |
| **Totals** | **$6,986** | **$7,078** | **$7,176** | **$98** | **$190** |

[a] Includes funding for pensions and retiree health benefits.
[b] Includes funds that CSU uses to provide tuition discounts and waivers to certain students. In 2018-19, CSU would provide $701 million in such aid.
[c] Includes lottery funds and, beginning in 2017-18, $2 million ongoing from the State Transportation Fund for transportation research.

Figure 13

**Summary of CSU Recommendations**

| Issue | May Revision Proposal | LAO Recommendation |
|---|---|---|
| **Repercussions if tuition increase adopted** | Reduces General Fund appropriation if CSU increases tuition. Ties reduction to associated Cal Grant and Middle Class Scholarship cost increases. | ***Reject This Year.*** Not relevant given the statutory time frames for adopting tuition increases already have elapsed this year. Prospectively, could adopt language (1) linking segment's state support with tuition levels and (2) reducing state support dollar for dollar if CSU were not to honor a tuition agreement with the Legislature. |
| **Deferred maintenance** | Provides $100 million one time. | ***Modify.*** Require CSU by December 1, 2018 to submit a plan to eliminate its backlog and improve maintenance practices. |
| **Cost-of-living adjustment (COLA) for Capital Fellows Program** | Provides $5,000 ongoing increase. | ***Adopt.*** Reflects revised COLA. |

# UNIVERSITY OF CALIFORNIA

***Core Funding for the University of California (UC) Higher Than January Level by $157 Million.*** Figure 14 (see next page) compares core funding for UC under the Governor's budget and the May Revision. Under the May Revision, General Fund support is $157 million (1.7 percent) higher than the Governor's budget. UC core funding in 2018-19 is $227 million (2.6 percent) higher the revised 2017-18 level. Under the May Revision, UC's core funding reaches $9 billion in 2018-19. Below, we describe and assess the May Revision proposals for UC. The proposals contain $1 million for ongoing purposes and $156 million for expanded or new one-time initiatives.

## Major Changes

***Delays $50 Million in 2017-18 Funding Pending UC Meeting Budget Conditions.*** The May Revision delays release of $50 million ongoing General Fund support to UC—originally scheduled for release May 1, 2018. The 2017-18 budget conditioned this funding on UC meeting certain conditions: making a good faith effort to implement certain expectations regarding the UC Office of the President's (UCOP) budget, meeting a certain ratio of transfer-to-freshman students at each campus, adopting restrictions on supplemental retirement benefits for newly hired senior managers, and piloting activity-based costing at three campuses. Though the May Revision assumes the $50 million eventually will be released, the administration indicates its intends to delay the release at least a few weeks, as UC has not yet completed some of the expectations. The administration indicates it may release the funds after the Board of Regents meet in late May, if the board takes actions to address the remaining issues.

***Implements Plan to Fund Enrollment Growth in 2018-19.*** The May Revision shifts $8.5 million from the UCOP budget to the campuses to support enrollment growth in 2018-19. In addition, campuses are redirecting $6.5 million from within their existing budgets to support growth. Together the $15 million redirection is intended to support 1,500 additional undergraduate resident students (0.8 percent growth). The plan is consistent with legislative direction provided last year to UC regarding how the system was to cover enrollment growth in 2018-19.

***Sets Repercussions for UC Were It to Raise Tuition in 2018-19.*** The May Revision authorizes DOF to reduce UC's General Fund appropriation were the university to increase tuition in 2018-19. The reduction would be tied to Cal Grant and Middle Class Scholarship cost increases resulting from a UC tuition increase. DOF would be required to give the Joint Legislative Budget Committee 30 days advance notice before making any associated reduction. Unlike for tuition increases, no repercussions would be linked to UC increasing the systemwide Student Services Fee. The Board of Regents does not plan to increase tuition or the Student Services Fee at its upcoming May meeting, though the board discussed plans at earlier meetings to increase tuition by 2.5 percent and the Student Services Fee by 5 percent for the 2018-19 academic year.

***Provides One-Time Funding for Deferred Maintenance Projects.*** The May Revision provides $100 million to UC for deferred maintenance projects. The proposal is part of a broader package of one-time funding for deferred maintenance projects across numerous state agencies.

***Increases Psychiatric Residency Positions.*** The May Revisions provides $55 million one time for psychiatric residency programs. Of this amount, $40 million would fund residency positions at UC. The remaining $15 million would be for a grant program, administered by UC, to increase the number of psychiatric residents at non-UC hospitals. The Accreditation Council for Graduate Medical Education lists 23 accredited psychiatric residency programs in California, with a total of 576 currently filled residency positions. The May Revision funding would be restricted to UC and non-UC programs that serve rural areas of the state that the federal government designates as having health professional workforce shortages. (The federal government designates 208 regions in California as "Medically Underserved Areas" and 167 regions as mental health "Health Professional Shortage Areas." Many regions have both designations.) According to the administration, grant funding would cover the total cost of a resident's two-year program. The funds would be available for expenditure beginning June 30, 2019 and remain available through June 30, 2023. UC would be authorized to use up to $5.5 million (10 percent) of the funding for administrative costs.

***Funds Anti-Bias Training.*** The May Revision provides $1.2 million one time for UC to contract

**Figure 14**

**Comparing Core Funding for UC Under Governor's Budget and May Revision**

*(In Millions)*

| | 2017-18 Revised | 2018-19 Governor's Budget | 2018-19 May Revision | 2018-19 Change | Year-to-Year Change at May Revision |
|---|---|---|---|---|---|
| General Fund | | | | | |
| Ongoing | $3,367 | $3,469 | $3,470 | $1 | $103 |
| One time | 177 | — | 156 | 156 | -20 |
| Carryover[a] | 5 | 39 | 39 | — | 34 |
| Subtotals | ($3,549) | ($3,509) | ($3,666) | ($157) | ($117) |
| Tuition and fees[b] | $4,816 | $4,936 | $4,936 | — | $120 |
| Lottery | 42 | 42 | 42 | — | —[c] |
| Other core funds[d] | 405 | 395 | 395 | — | -10 |
| **Totals** | **$8,813** | **$8,882** | **$9,039** | **$157** | **$227** |

[a] Of the one-time funding provided to UC in 2016-17, $45 million was unspent. UC plans to spend $5 million in 2017-18 and the remainder in 2018-19.
[b] Includes funds that UC uses to provide tuition discounts and waivers to certain students. In 2018-19, UC plans to provide $1 billion in such aid. Includes 5 percent increase in the Student Services Fee in 2018-19. UC has not adopted tuition and fee increases for the 2018-19 academic year.
[c] Less than $500,000.
[d] Includes a portion of overhead funding on federal and state grants, a portion of patent royalty income, and Proposition 56 funding designated for graduate medical education.

for a two-year pilot program to train UC and CSU employees and student leaders on responding to on-campus hate and extremist incidents. Provisional language would authorize UC to spend up to $200,000 (17 percent) on administrative costs associated with managing the contract.

***Provides Support for Research on Global Affairs.*** The May Revisions provides $1 million ongoing for the Institute for Global Conflict and Cooperation, located at the UC San Diego campus. The institute, which was founded in the early 1980s and received state funding until the early 2000s, supports research on challenges to international security due to nuclear proliferation, climate change, and other emerging issues. According to the institute's staff, the proposed ongoing augmentation would support (1) work groups on various high-priority topics, including denuclearization negotiations in North Korea and relations between the United States and Russia; (2) research grants for faculty and graduate students; and (3) educational workshops for policymakers in Sacramento and the District of Columbia.

***Authorizes UC to Charge Campuses for UCPath Cost Increases.*** UCPath is a human resources management system that provide various business services, such as payroll processing, to campuses. The May Revision bifurcates budgeting for UCPath by funding a portion of costs through UCOP's budget and a portion of costs through campus charges. Specifically, the May Revision provides up to $67.7 million for UCPath, with $52.4 million funded through UCOP's budget and up to $15.3 million funded through campus charges. The May Revision includes a special provision allowing UC to charge campuses more than $15.3 million but only after receiving approval from DOF and the Joint Legislative Budget Committee.

***Equal Employment Opportunities.*** The May Revision reappropriates unspent one-time General Fund provided in 2016-17 and 2017-18 for identifying equal employment opportunity best practices.

## Assessment and Recommendations

Figure 15 (see next page) summarizes of our recommendations for the May Revision UC proposals. We provide our assessment of these proposals below.

***Recommend Allowing Delay in Release of Funds.*** While UC has met most of the conditions set forth in the 2017-18 budget, a few conditions remain unmet. The university indicates that it will take action to address the remaining conditions at its upcoming May board meeting. We recommend the Legislature consent to the administration's proposed delay in the release of the funds to ensure UC continues to make a good faith effort to meet outstanding budget conditions.

***Recommend Stronger Provisional Language If Tuition Increase Not Desired.*** We believe the Governor's idea of linking state General Fund and tuition decisions would help make for more rational and transparent budgeting. We recommend strengthening the proposed language, however, to reduce General Fund support dollar for dollar if UC were not to honor a tuition agreement with the Legislature. We think this dollar-for-dollar approach is a much stronger and better incentive than linking a General Fund reduction only to the associated Cal Grant and Middle Class Scholarship cost increases. We believe such language would be particularly helpful prospectively, in that more time would be given to send signals to the university systems about what cost and tuition increases would be acceptable to the state. This year, with the budget season almost over, the language might have less effect. (Were tuition hikes to be deemed off the table for 2018-19, the Legislature would need to provide additional General Fund support if it wanted to approve additional UC funding priorities. We identify and assess UC's key cost drivers in *The 2018-19 Budget: Higher Education Analysis*.)

***Recommend Adopting Deferred Maintenance Proposal but Require Plan for Eliminating Backlog.*** In the past, UC has indicated that its maintenance backlog is billions of dollars. It has not provided a more specific estimate because it indicates that its campuses lack a standardized way to track the condition of their facilities. In November 2017, the university embarked on a multiyear study to develop a more accurate estimate of its backlog using a consistent set of standards across all campuses. Though UC currently is unable to provide an accurate estimate of its total backlog at this time, we think the university system's total maintenance backlog likely exceeds $100 million. Given addressing deferred maintenance issues earlier rather than later often can prevent the need for more expensive maintenance repairs in future years, we recommend the Legislature approve the $100 million May Revision proposal. In tandem with approving the funding, we recommend the Legislature require UC to develop a long-term plan for eliminating its existing backlog of deferred maintenance. We recommend the plan also identify ways to improve annual maintenance practices, including by setting aside a certain amount of funding regularly for scheduled maintenance. To align the plan with UC's current efforts to estimate its maintenance needs, we recommend the plan be submitted to the Legislature shortly after UC completes its facility condition assessment.

***Psychiatric Residency Proposal Raises Several Issues for the Legislature to Consider.*** Workforce data suggest that staffing shortages

**Figure 15**

## Summary of UC Recommendations

| Issue | May Revision Proposal | LAO Recommendation |
|---|---|---|
| **Conditions on 2017-18 monies** | Delays release of $50 million by a few weeks pending UC meeting remaining budget conditions. | ***Adopt.*** Legislature has interest in ensuring UC makes a good faith effort to meet all of the 2017-18 budget conditions. |
| **Enrollment growth** | Shifts $8.5 million ongoing from UCOP to campuses (an additonal $6.5 million redirected from within campus budgets). | ***Adopt.*** Conforms with legislative direction to fund enrollment growth in 2018-19. |
| **Repercussions if tuition increase adopted** | Reduces General Fund appropriation if UC increases tuition. Ties reduction to associated Cal Grant and Middle Class Scholarship cost increases. | ***Modify.*** Strengthen language to reduce General Fund dollar for dollar were tuition increased in excess of legislative agreement. Apply language prospectively. |
| **Deferred maintenance** | Provides $100 million one time. | ***Modify.*** Require UC to develop long-term plan to eliminate backlog and improve maintenance practices. |
| **Psychiatric residency programs** | Provides $55 million one time. | ***Modify.*** If additional residency slots funded, allocate all funding competitively, use independent body to select grant recipients, add reporting requirement, and cap administrative allotment. |
| **Anti-bias training** | Provides $1.2 million for a two-year pilot program for training faculty, staff, and student leaders at UC and CSU. | ***Reject.*** Direct segments to report on anti-hate training activities and use existing resources for such training. |
| **Center for Global Conflict and Peace** | Provides $1 million ongoing. | ***Reject.*** Unclear that existing research activities across the nation on global conflict are inadequate. |
| **UCPath operations** | Retains budget line item ($52.4 million), but authorizes UC to charge campuses for cost increases (up to $15.3 million). | ***Modify.*** Do not bifurcate budget between UCOP and campuses. Consider cost sharing agreement among state and nonstate funds. Vigilantly monitor cost increases over next few years. |
| **Equal employment opportunity** | Reappropriates one-time funding provided in 2016-17 and 2017-18. | ***Adopt.*** Authorizes UC to spend remaining unspent monies. |

UCOP = University of California Office of the President.

exist in certain health fields and certain geographic areas of the state. The Legislature would need to decide whether it considers the shortage of psychiatric staff to be the highest priority among all the staffing shortage areas that currently exist in California. If the Legislature desired to address this one staffing area, then it likely would want data to help it assess the core underlying causes of the shortage. Though more residency slots might be an effective way to address the shortage, the Legislature might want to explore other options that potentially could be more effective. For example, a portion of the Mental Health Service Act funds a variety of programs, including a loan forgiveness program and recruitment and retention programs, to incentivize mental health professionals to work in areas of high need. The May Revision proposal also provides one-time funding but solving the shortage might require at least some ongoing funding, without which the infusions of one-time funding might be especially ineffective.

***If Decide to Pursue Psychiatric Residency Proposal, Recommend Improvements.*** Given the issues mentioned above are numerous and fundamental, we question whether the Legislature has adequate time to address them before budget closeout. Nonetheless, if the Legislature were to decide to fund more residency positions in 2018-19, we recommend four changes to the May Revision proposal to improve the proposed program's design.

- ***Make All Funding Competitive.*** We recommend making the entire $55 million open to competitive grants, rather than specifying a certain amount go only to UC. This would allow funding to go to programs with the highest demonstrated impact.
- ***Use an Independent Body to Select Grant Recipients and Conduct Oversight.*** To ensure the funds are allocated without preference for UC programs, we recommend the Legislature use an independent body to administer the program and distribute grants. In implementing this provision, the Legislature could consider using an existing body with sufficient expertise, such as the Office of Statewide Health Planning and Development.
- ***Establish Reporting Requirements.*** To help assess the effectiveness of the program, we recommend the Legislature require UC to submit an annual report over the duration of the program. We recommend the annual report include: (1) a list of grant recipients each year, (2) the growth in residency positions as a result of the grant program, and (3) employment information on grant-supported residents a few years after completing the program to gauge whether the funded slots resulted in more psychiatrists in areas of high need.
- ***Reduce Administrative Allotment.*** We think a 10 percent allotment for administration is high relative to similar health workforce programs in the state. For example, the Office of Statewide Health Planning and Development sets aside 6 percent of funding to administer a grant program for primary care residency slots.

***Recommend Using Existing Staff and Existing Operational Funding for Anti-Bias Training.*** According to the Anti-Defamation League, white supremacist propaganda has increased notably at college campuses since 2016. For example, the organization indicates that it has tracked 53 incidences of extremist flyers posted on UC and CSU campuses. Ensuring campus employees and student leaders are adequately prepared to respond to these and other hate incidents is a laudable goal. We believe, however, that the activities proposed by the Governor should be the ongoing responsibility of existing UC administrative staff and a high priority for the use of existing training funds. If the Legislature were concerned that UC and CSU were not giving sufficient priority to anti-hate training, then it could require the systems to report next year on their existing and new efforts to train employees and student leaders in this area.

***Recommend Rejecting Funding for Global Affairs Research.*** According to the federal U.S. Institute of Peace, over 90 university research centers in the United States study international relations issues. Several of these institutes focus specifically on global peace and conflict issues, such as the Stanford Center on International

Conflict and Negotiation and the School for Conflict Analysis and Resolution at George Mason University. Similar to the UC San Diego center, these programs conduct research on a number of multidisciplinary topics and support graduate students. In our view, the administration has not sufficiently demonstrated that the combined activities of these centers provide an inadequate level of research on global issues. For this reason, and given the many other state-specific priorities facing the Legislature this year, we recommend rejecting this proposal.

***Recommend Rejecting Proposal to Bifurcate UCPath Budget.*** The May Revision proposal to fund a portion of the UCPath budget through the UCOP budget and a portion through campus charges in unnecessarily complicated. We recommend the Legislature choose one budgetary approach. At this time, we see advantages to using the campus assessment method, as we think it might provide stronger incentives to contain UCPath costs.

***Could Consider Cost Sharing Arrangement Between State and Nonstate Funds for UCPath.*** Regardless of whether the Legislature elects to continue to fund UCPath through UCOP's budget or campus assessments, it could consider establishing a cost sharing agreement that attributes a portion of UCPath costs to state funds and a portion to nonstate funds. As UCPath is a human resources system, a cost sharing agreement could be based on the share of W-2s of employees serving in state capacities (typically general campus staff) or nonstate capacities (typically research and hospital staff). Based upon these data, we estimate the state share of cost would be about 40 percent, with the nonstate share 60 percent.

***Continue to Monitor System Vigilantly.*** To date, UCPath has taken much longer to develop and costs much more than originally expected. Additionally, according to a recent analysis from the California State Auditor, campuses might not reduce their staffing levels once the center is fully deployed in 2019-20, thereby negating much of the anticipated savings. We recommend the Legislature continue to monitor the UCPath budget vigilantly over the next few years to ensure that cost increases are justified, campuses find the system useful, campuses want to transition from their legacy systems to the UCPath system, and budgeting for the system is transparent and appropriate, with strong cost containment incentives.

# STUDENT FINANCIAL AID

***Student Financial Aid Funding Up Under May Revision.*** Figure 16 compares total funding for the California Student Aid Commission (CSAC) under the Governor's January budget and the May Revision. Compared to the Governor's January budget, the May Revision includes an additional $24 million for CSAC programs. Under the May Revision, total funding for CSAC in 2018-19 is $2.3 billion, reflecting an increase of $21 million (0.9 percent) over the revised 2017-18 level. Below, we describe and assess the May Revision proposals for CSAC.

## Major Changes

***Adjusts Cal Grant Funding Based on Updated Participation Estimates.*** The May Revision increases Cal Grant funding by $76 million in 2017-18 and $29 million in 2018-19 to reflect updated Cal Grant participation estimates.

***Decreases TANF Support, Increases General Fund Accordingly.*** The May Revision decreases federal TANF support by $29 million and increases state General Fund by that amount. This fund swap has no programmatic effect.

***Revises Expectations for Transfer Enrollment at Private Nonprofit Institutions.*** The May Revision continues to tie a portion of the nonprofit Cal Grant award amount ($1,028) to the nonprofit sector meeting overall transfer student targets. The May Revision differs from the Governor's January proposal only in the specific targets set for the sector over the next three years (see Figure 17 on page 32). For example, the May Revision reduces

**Figure 16**

**Comparing Funding for the California Student Aid Commission Under Governor's Budget and May Revision**

*(In Millions)*

| | 2017-18 Revised | 2018-19 Governor's Budget | 2018-19 May Revision | 2018-19 Change | Year-to-Year Change at May Revision |
|---|---|---|---|---|---|
| General Fund | $1,256 | $1,201 | $1,254 | $53 | -$2 |
| Federal TANF | 1,043 | 1,095 | 1,066 | -29 | 23 |
| Other federal funds and reimbursements | 18 | 18 | 18 | —[a] | —[a] |
| College Access Tax Credit Fund | 6 | 6 | 6 | — | —[a] |
| **Totals** | **$2,323** | **$2,319** | **$2,343** | **$24** | **$21** |

[a] Less than $500,000.
TANF = Temporary Assistance for Needy Families.

the target number of students with associate degrees for transfer admitted across the sector from 2,500 to 2,000 in 2018-19. The May Revision does not change the repercussions if the sector does not meet the target in a given year—the Cal Grant award amount still is set to drop from $9,084 to $8,056.

***Authorizes Short-Term General Fund Loans to Help CSAC Manage Cal Grant Cash Flow.*** The May Revision authorizes DOF to issue short-term General Fund loans of up to $125 million to cover Cal Grant costs throughout the fiscal year. Specifically, the loans would be provided to CSAC to address cash flow issues resulting from delays in receiving TANF funds. To receive a loan, CSAC would have to receive confirmation from the Department of Social Services that no TANF monies could be advanced at that time. The loans would be interest free and would have to be repaid within 90 days.

***Small Adjustments to Other Financial Aid Programs.*** The May Revision makes small adjustments in participation and award amounts to several other financial aid programs, including the Middle Class Scholarship program, the Assumption Program of Loans for Education, the State Nursing Assumption Program, the Child Development Teacher and Supervisor Grant Program, the John R. Justice Loan Assumption Program, and the Law Enforcement Personnel Dependent Grant Program.

## Assessment and Recommendations

Figure 18 (see next page) summarizes of our recommendations for the May Revision financial aid proposals. We provide our assessment of the most notable of these proposals below.

***Recommend Adopting May Revision Cost Estimates for Cal Grant and Other Financial Aid Programs.*** Based upon our preliminary review of the administration's budget documentation, the May Revision participation and cost estimates appear to be in line with the updated underlying data submitted by CSAC.

***Change to Nonprofit Expectations Does Not Address Underlying Concerns With Proposal.*** In *The 2018-19 Budget: Higher Education Analysis*, we noted three major concerns with the Governor's January proposal for the private nonprofit Cal Grant award. The change would deemphasize the award's longstanding goal of ensuring financially needy students have the choice to attend a private institution. Additionally, the administration was not able to substantiate that nonprofit institutions currently have inadequate transfer pathways. Thirdly, the proposal has a poor accountability mechanism—effectively holding individual students and nonprofit institutions accountable for a sectorwide expectation which is out of their direct control to meet. The May Revision does not address these core concerns. Furthermore, the current number of students with associated degrees for transfer who are admitted to nonprofit institutions remains unknown. Without this data, the Legislature lacks a baseline to set reasonable targets. The May Revision targets could be lower than the number of students with associated degrees for transfer already admitted to the sector.

**Figure 17**

**Revised Admission Expectations for Nonprofit Institutions**

*Number of Students With Associate Degree for Transfer*

| | 2018-19 | 2019-20 | 2020-21 | 2021-22+ |
|---|---|---|---|---|
| Governor's Budget | 2,500 | 3,000 | Proportion[a] | Proportion[a] |
| May Revision | 2,000 | 3,000 | 3,500 | Proportion[a] |

[a] Based on the percent change over the prior year in the number of all transfer students admitted at nonprofit institutions.

***Withhold Recommendation on Short-Term Loans Until Additional Information Received.*** Federal TANF funding represents around half of funding for the Cal Grant program. Given the large reliance on TANF funding, CSAC could be experiencing cash flow issues if the receipt of TANF funds, in combination with the release of state funds, is not well timed with award payments. The administration, however, has not provided the Legislature with a cash flow analysis to determine if such problems currently exist. Without this information, we are unable to assess this proposal.

**Figure 18**

**Summary of Financial Aid Recommendations**

| Issue | May Revision Proposal | LAO Recommendation |
|---|---|---|
| **Cal Grant participation** | Increases by $76 million in 2017-18 and $29 million in 2018-19. | ***Adopt.*** Based on preliminary review, participation estimates appear reasonable. |
| **TANF funding for Cal Grants** | Decreases federal TANF support by $29 million and increases General Fund support by same amount. | ***Adopt.*** Reflects fund swap and has no programmatic effect. |
| **Cal Grant awards for students at private, nonprofit schools** | Continues to require nonprofit sector to admit specified number of students with associate degrees for transfer, but revises the targets. | ***Reject.*** Minor change to targets does not address underlying problems with proposal. |
| **Short-term state loans to cover delays in TANF funds for Cal Grant costs** | Authorizes Student Aid Commission to receive up to $125 million in interest-free General Fund loans. Requires loans to be paid back within 90 days. | ***Withhold.*** Assessment pending receipt of additional data on underlying cash flow issues. |

TANF = Temporary Assistance for Needy Families.

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