This brief analyzes the Governor's budget proposals relating to CCC enrollment, apportionments, and nursing education. In addition, the brief provides a number of recommendations and options to help the Legislature address the large gap between current CCC spending and available Proposition 98 funding.

In responding to the drop in the Proposition 98 minimum guarantee for 2022-23, the Governor proposes a budget maneuver that effectively borrows from the future non-Proposition 98 side of the budget—setting problematic fiscal precedent and worsening the state's out-year deficits. In addition, the Governor's budget likely overestimates the amount of funding available to the colleges in 2023-24 and 2024-25. The Governor's budget also proposes to increase ongoing spending in 2024-25 by providing a cost-of-living adjustment (COLA) to certain CCC programs, despite not being able to afford even existing CCC spending commitments. Furthermore, the Governor misses many opportunities to pull back funds remaining from prior budgets to achieve one-time budget solutions.

Given the significant drawbacks to the Governor's CCC budget plan, we recommend the Legislature take a different approach. For 2022-23, instead of adopting the Governor's problematic budget maneuver, we recommend the Legislature use Proposition 98 reserves to address the funding shortfall. This alternative is sound from a

INTRODUCTION

. The CCC system is one of California's three public higher education segments. The system consists of 115 colleges operated by 72 locally governed districts located throughout the state, plus one statewide online community college administered by the Board of Governors. The colleges offer a breadth of academic programs, including lower-division transferable coursework, career technical education, precollegiate basic skills instruction, and citizenship classes. The state also allows community colleges to offer baccalaureate degrees in certain occupational fields as long as they do not duplicate the programs offered by the University of California (UC) or the California State University (CSU). In addition to their core academic programs, colleges are authorized to offer state-supported instruction that is primarily recreational in nature (such as golf and yoga classes).

. This brief analyzes the Governor's budget proposals for CCC. We begin by describing the Governor's overall budget plan for CCC and providing our high-level assessment of that plan. The next four sections of the brief focus on CCC enrollment, apportionments, a loophole related to summer enrollment, and nursing education, respectively. Within those sections, we identify a few opportunities for the Legislature to achieve budget savings. The last section covers other opportunities the Legislature has to achieve one-time and ongoing budget savings.

OVERVIEW

We discuss these estimates in more detail in *2024-25 ... 98 -12 ... A ...*

2022-23 ... Of the downward revisions, $9.1 billion is attributable to 2022-23. This is the largest reduction to the guarantee in a prior year since the passage of Proposition 98 in 1988. Previous downward revisions to the prior-year guarantee have been no more than a few hundreds of millions of dollars. The administration attributes the unusually large adjustment primarily to the late tax filing deadline for 2022 returns (November rather than April 2023) and the lack of reliable revenue data prior to budget enactment in June 2023.

... 2022-23 ... The Governor proposes to realign Proposition 98 spending with the revised estimate of the minimum guarantee in 2022-23. The main way the Governor addresses the reduction in the guarantee is by proposing to reclassify $8 billion in Proposition 98 General Fund payments already made to schools and community colleges. Of the $8 billion, $910 million would be attributed to community colleges. The $8 billion would be reclassified as non-Proposition 98 General Fund payments, removed from the state's books in 2022-23, and recognized back on the state's books in even increments spread across 2025-26 through 2029-30. This maneuver would not reduce any previous funding provided to colleges or

In addition, the Governor's budget contains $60 million one-time Proposition 98 General Fund to expand CCC nursing education. (Last year, the state adopted a five-year funding plan totaling $300 million to expand CCC nursing education, with the programmatic details of the initiative to be subject to future legislation.)

2024-25 **.**

To cover his new proposed CCC spending in 2024-25, the Governor proposes to make another discretionary withdrawal from the Proposition 98 Reserve. For schools and colleges combined, the Governor proposes to withdraw $2.6 billion. Of this amount, $486 million would be used for ongoing community college apportionment costs. Under the Governor's plan, $3.9 billion in Proposition 98 reserves would remain available entering 2025-26.

- ***.*** We have major concerns with the Governor's proposed budget maneuver for addressing the drop in the 2022-23 guarantee. As we discuss in *2024-25*, the state is projected to have multiyear budget deficits of roughly $30 billion annually. The Governor's proposed maneuver contributes to these projected budget deficits over the outlook period and beyond (through 2029-30). Carrying $8 billion in effectively greater internal debt would make balancing the state budget more difficult in the coming years. Moreover, the impact would be felt fully on the non-Proposition 98 side of the budget—potentially at the expense of health care programs, social services, and other state programs beyond education. The maneuver sets problematic fiscal precedent by borrowing from the setting a problematic fiscal precedent, and not worsen future state budget deficits. It also would be consistent with the state's original rationale for creating the Proposition 98 Reserve account.

2023-24 ***.*** Based on our February 2024 estimates of the 2023-24 minimum guarantee, the Legislature is facing an approximately $800 million gap that year between available Proposition 98 CCC funding and existing CCC spending. If the Legislature used Proposition 98 reserves to address the 2022-23 situation, it would have approximately $175 million in Proposition 98 reserves remaining to support CCC program spending in 2023-24. Although the estimated CCC funding gap in 2023-24 is still subject to considerable uncertainty, we recommend the Legislature begin identifying additional potential Proposition 98 budget solutions. Toward this end, we recommend the Legislature revisit recent CCC initiatives to determine if any associated funding remains unallocated or unspent. As discussed in the "Budget Solutions" section of this brief, we estimate the Legislature could achieve hundreds of millions of dollars in additional Proposition 98 budget solutions by identifying still available funds from recent CCC initiatives. Pulling back these funds could yield potentially enough savings to address the entire CCC budget gap in 2023-24.

2024-25. As a starting point in building the CCC budget for 2024-25, we recommend not increasing ongoing CCC spending. To this end, we recommend not providing a COLA to apportionments (or any CCC program). Typically, when facing multiyear deficits, the state aims to contain, not increase, spending. Though we recommend not providing a COLA to CCC apportionments, we recommend the Legislature place a high initial priority on maintaining funding for the colleges' core insta Ciucep nta7 (i)0.5 (ur)otie,urgaseC s39-0(p)-7.4 (i37.F2J0p3s(nt)35p-52C (io (p3st)3.6f(u)-7.,)20u (c

Figure 3

(Dollars in Millions Except Funding Per Student)

The Governor proposes to provide $29 million in state general obligation bond funding to continue one previously authorized community college project—the College of the Siskiyous Theater and McCloud Hall renovation. The bond funds would come from Proposition 51 (2016). This project is funded for the construction phase. In 2022-23, the state approved $1.6 million for preliminary plans and working drawings. Construction is scheduled to start in January 2025 and be completed by June 2026.

In response to the budget deficit the state faced last year, the 2023-24 budget package converted 19 CCC student housing projects from being funded up front with cash to being debt financed. Specifically, the state rescinded a total of about $1 billion one-time non-Proposition 98 General Fund, replacing it with $61.5 million ongoing non-Proposition 98 General Fund for debt financing. Under the arrangement, most of the CCC projects (16) were to issue local revenue bonds or wait for a state lease revenue bond or other state financing alternative to be developed as part of the 2024-25 budget process. Three intersegmental projects involving the Merced, Riverside, and Santa Cruz areas are being funded with UC revenue bonds. Since enactment of the *2023-24 B A*, the administration has determined that three of the CCC projects (in the Napa, Santa Rosa, and Imperial Valley areas) are not good candidates for a state lease revenue bond program. The Governor's budget proposes to return to funding these three projects up front with cash—using $50.6 million of the ongoing non-Proposition 98 General Fund appropriation provided last year (generating $10.9 million in 2023-24 savings).

. The *G* ... *B* ... *S* indicates that the administration is committed to using a state lease revenue bond approach for financing the remaining 13 CCC projects.

The Governor intends to submit a corresponding proposal at the May Revision. Given timing issues entailed in developing such a program, the administration believes no associated funding would be needed in 2024-25.

ENROLLMENT

In this section, we provide background on community college enrollment trends, describe the Governor's proposal to fund enrollment by an estimated 4 percent (in FTE terms) over 2021-22 levels. Figure 5 shows that while some districts were back at or above their pre-pandemic enrollment levels in 2022-23, most community colleges remained below those levels. Fall 2023 data will not be released by the Chancellor’s Office until latey ah uebo023454.4 4, (e 6(ue)1.3 (t (o)-7.4 (m)-8.4 (e)35 ( ) (a)1.1 (t)-4.1 (a w)-9.3 s)]TJ0ue C)-7.(e)-13.7(e)-13.7 (s r underlying apportionment data has been finalized, which occurs after the close of the fiscal year. After addressing any apportionment shortfalls, remaining unused enrollment funding flows into

2024-25. We recommend the Legislature also use updated enrollment data, as well as updated data on available Proposition 98 funding, to make its decision on CCC enrollment growth for 2024-25. If the updated enrollment data indicate districts are growing in 2023-24, the Legislature could view the Governor's proposed growth funding in 2024-25 as warranted.

faculty generally have increased. For tenure and tenure-track faculty, the average salary has been growing slightly quicker than inflation, reaching $114,630 in 2022.

2024-25. Between 2021-22 and 2022-23, both inflation and wage growth (across the nation and in California) were at their highest levels in several decades. Although inflation and wage growth among workers have slowed noticeably over the past year, both are likely to remain above historical averages for the next few years. As a result, community college districts are likely to continue feeling pressure to provide their employees with salary increases. This is particularly true in districts that report having challenges recruiting faculty and other staff due to less competitive salary levels.

About half of CCC employees (namely faculty) participate in the California State Teachers' Retirement System (CalSTRS), with the other half (namely staff and administrators) participating in the California Public Employees' Retirement System (CalPERS). Districts' employer contribution rates for these two systems are set by the respective retirement boards, rather than at the local community college district level (meaning all college districts are subject to the same contribution rates). Districts' pension costs have been increasing over time. In 2013-14, districts' employer contribution rate was 8.3 percent of payroll for CalSTRS and 11.4 percent of payroll for CalPERS. Those rates are up to 19.1 percent of payroll for CalSTRS and 26.7 percent of payroll for CalPERS in 2023-24. Based on current assumptions, districts' CalSTRS contribution rate is expected to stay constant at 19.1 percent in 2024-25, whereas the CalPERS rate is projected to increase to 27.8 percent. (Community colleges are not included in the Governor's CalPERS proposal involving changes in how a previous state supplemental payment is applied.) Accounting for both retirement systems, community college costs are expected to increase by $76 million in 2024-25.

Similar to other education segments, community college districts generally also expect to see higher costs in 2024-25 for health care premiums, insurance, equipment, supplies, and utilities. Health care costs are the largest of these remaining cost pressures. Districts are likely to face even greater pressure in this area than normal, as premiums in 2024 are increasing at historically high rates. Cost drivers include new medical technologies, increases in prescription drug costs, and inflation. Districts generally cover premium increo e as permanent employees. Most districts across the state have been affected by enrollment declines

Whereas unrestricted reserves totaled $1.8 billion (22 percent of expenditures) in 2018-19, they grew to an estimated $3.1 billion (33 percent of expenditures) in 2022-23. Both the Government Finance Officers Association and the Chancellor's Office's recommend that unrestricted reserves comprise a minimum of 16.7 percent (two months) of expenditures.

The increase in districts' local reserves is the result of at least three factors. One factor is that the state notably increased community college funding during the pandemic years despite enrollment drops. Given enrollment drops and large state augmentations (even beyond high COLA rates), districts purposefully have tended not to spend all their state allotments the past few years. Additionally, federal relief funds provided during the pandemic reduced pressure on local and state funds that colleges would otherwise have needed to cover technology and certain other operating costs. Amid these federal and state funding increases, colleges also achieved savings from staff reductions and vacancies.

The Governor's budget includes $69 million to cover a 0.76 percent COLA for apportionments. This is the same COLA rate the Governor proposes for the K-12 LCFF.

The Governor's budget also includes a 0.76 percent COLA for seven CCC categorical programs, at a total cost of $9 million. The COLA rate is based on a particular price index, as described in more detail in the nearby box. The COLA rate will be revised in late April, as new data from the federal government is released at that time.

Under the Governor's budget, the state has insufficient Proposition 98 funds to cover even existing CCC costs, before applying any COLA in 2024-25. Given Proposition 98 funding is insufficient to cover CCC costs, the Governor proposes to draw down $486 million in Proposition 98 reserves. The Governor must dedicate $78 million of his proposed Proposition 98 Reserve withdrawal for covering the added ongoing cost of the proposed COLA for CCC apportionments and certain CCC categorical programs. Historically, the state has not used reserves to augment ongoing spending. Rather, the state historically has used reserves during times of recessions to mitigate program reductions.

This would result in savings of $78 million Proposition 98 General Fund relative to the Governor's budget. Under the Governor's budget proposal, one-time reserves are required to cover these higher ongoing costs. Such an approach sets up the state for more difficult choices next year. Were the Legislature not to provide the COLA in 2024-25, it would lessen the ongoing shortfall for CCC programs and allow for better choices in 2025-26. This recommendation is consistent with our office's recommendations not to increase funding and spending expectations for CSU and UC in 2024-25. If sufficient state revenues do not materialize over the coming months, all higher education segments face the further prospect of ongoing program cuts.

2025-2 . SCFF has several funding protections that allow districts to earn more in apportionment funding than they would otherwise earn through the formula's regular calculations and funding rates. (As discussed in the "Enrollment" section of this brief, many districts are benefiting from these provisions given their enrollment is down notably from pre-pandemic levels.) The 2022-23 budget modified one of these funding protections by setting a new hold harmless funding level. Specifically, beginning in 2025-26, districts are to receive no less total apportionment funding than they received in 2024-25. The intent of this policy is to provide a funding floor for districts experiencing enrollment declines. In addition, because the hold harmless amount will not grow by COLA each year, the intent is to eventually move all districts off the hold harmless provision and into the regular SCFF formula calculations (whereby districts have incentives to enroll low-income students and have good outcomes for all students).

Districts use the summer loophole (counting two summer terms toward one fiscal year) to boost district funding in a given year above what it would be otherwise. Over the next few years, using the summer loophole will become even more appealing to districts. This is because many districts likely will be on hold harmless in 2025-26 due to recent enrollment declines. In order to maximize this funding, they have an incentive to push as much enrollment as they can into 2023-24. By doing so, they could boost their funding level in 2024-25 by taking advantage of a different funding protection known as stability. (Some growing districts could receive more funding using the summer loophole if instead they push summer enrollments into 2024-25.)

. Systemwide, summer enrollment averages 12 percent of total annual enrollment, though the share can be as high as 20 percent in some districts. Doubling up summer enrollment in one year therefore can have large implications on districts' funding. Estimating the cost of the summer loophole, however, is difficult given final 2023-24 enrollment and funding data, including summer 2024 data, are not yet available. Based on our discussions with several districts and some preliminary modeling, we estimate the loophole could result in roughly $100 million in additional costs annually from 2024-25 through 2026-27, for a total of about $300 million in costs. SCFF costs likely would continue to be a few millions of dollars higher beyond 2026-27, until all districts reach enrollment levels moving them off the hold harmless provision. The administration has not built these costs into their SCFF calculations. The summer loophole also will have distributional effects, as districts taking advantage of the summer loophole effectively generate more under the formula (without any workload justification) than other districts. Given projected budget deficits and the prospect of spending reductions, we think this is a particularly bad time to be raising SCFF costs and potentially redistributing available funds among districts to reward those that use a loophole.

. Beyond these issues, the summer loophole can obscure actual enrollment trends. A district could report an enrollment decrease between two years, for example, but that may be due solely to its decision to report two summers' worth of enrollment in the prior year. The summer loophole thus makes enrollment tracking and legislative oversight more difficult.

. We recommend the Legislature specify in statute that the summer term is to be the first term counted in a fiscal year and summer-term enrollment is to be reported only once each fiscal year. We recommend including this new policy in June 2024 trailer legislation and making it apply starting in summer 2024. The new policy would mean that enrollment in the summer 2024 term would be counted only for 2024-25 (and enrollment in the summer 2025 term would be counted only for 2025-26). This approach would align summer enrollment reporting with the reporting of the other components of SCFF. (In addition, counting summer term as the first term of the fiscal year is the same as CSU's and UC's policy.) It also would eliminate a loophole that would otherwise drive up the cost of the formula substantially over the next few years. Finally, our recommendation would make enrollment reporting more meaningful and allow for improved legislative oversight.

NURSING EDUCATION

In this section, we first provide background on the state requirements to become a registered nurse (RN), nursing education programs, recent trends in the nursing workforce, and funding sources for CCC nursing programs. We then describe the Governor's proposal to fund a new nursing education initiative, assess the proposal, and provide an associated recommendation.

California's more than 300,000 RNs provide a variety of health care services in various settings, including hospitals, medical offices and clinics, extended care facilities, and laboratories. All RNs in the state must have a license issued by the California Board of Registered Nursing. To obtain a license, students must graduate from an approved nursing program, pass a national licensing examination, and complete certain other steps (such as undergoing a criminal background check).

After declining during the pandemic, nursing programs reported in fall 2023 that they have capacity and plans to increase enrollment slots, as Figure 9 shows. Nursing programs also are reporting strong demand from students again, with community college and many other nursing programs reporting far more applications than they can accommodate. CCC programs have an incentive to enroll these students because they are funded based on enrollment and receive additional state funding for their nursing programs. Private programs, meanwhile, have an incentive to fill enrollment slots with tuition-paying students. Given these circumstances, it is unclear why additional state funding is needed as proposed in the Governor's budget.

To the extent regional supply challenges persist, existing SWP funding is well-suited to support nursing programs. The underlying rationale for SWP is that some programs (just like nursing) have especially high costs due to equipment and low student-faculty ratios. In addition, the Legislature recognized when it created SWP that some industry sectors (like health care) might benefit from regional coordination and planning. The SWP structure allows for providers and employers to identify workforce needs and develop a regional stnto

Given that data suggests the current mismatch between supply and demand of RNs is temporary and that lack of state funding does not seem be a key reason underlying the shortage, we recommend the Legislature reject this proposal. To the extent individual regions continue to seek increases in their nursing supply pipeline in response to local shortages, colleges already have funding from apportionments, SWP, and other state programs that can be used for this purpose.

BUDGET SOLUTIONS

In this section, we discuss a number of legislative options for achieving additional CCC savings in light of the state's budget situation and the significant downward revisions to the Proposition 98 minimum guarantee.

From 2021-22 through 2023-24, the Legislature approved a total of about $3 billion in one-time Proposition 98 General Fund support for more than 60 one-time CCC initiatives and projects. Some of the largest appropriations were for facilities maintenance, student outreach, student basic needs, and an initiative for faculty to create open educational resources.

During the past several years, the state has appropriated ongoing funding both to create new CCC programs and to expand existing ones. For example, the state created a CCC student mental health program and doubled funding for the California Apprenticeship Initiative. In some cases, the CCC augmentations provided by the state have been exceptionally large. For example, in 2022-23, the state increased annual funding for the long-standing Part-Time Faculty Health Insurance Program from $490,000 to $200.5 million (a 400-fold increase).

2023-24. As we discuss in the "Overview" section of this brief, the CCC budget has an approximately $800 million gap between current spending and available funding under our office's February revenue estimates. The budget gap could end up being higher or lower depending upon revenue developments over the coming months.

Figure 10

Proposition 98 General Fund One-Time Solutions (In Millions)

Program		
	$381[a]	

Amount shown reflects total unspent regional and district funds of $27.4 million from 2020-21, $105.7 million from 2021-22, and $248 million from 2022-23. Unspent funds from years prior to 2020-21 might still be available to sweep too. By March 2024, the Chancellor's Office will have an update on regional and district spending from 2023-24 allocations. (In 2023-24, regions received $110.4 million and districts received $165.5 million.)

negative implications for colleges' core programs and low-income students. Figure 11 provides a list of ongoing savings options that focus on areas outside of colleges' core programs. As with our list of one-time solutions, the Legislature could use our list of ongoing solutions as a starting point, potentially adding items, as needed.

We recommend the Legislature use the next few months to begin identifying the CCC solutions it would need to balance the budget. We believe that now is the time to establish budget priorities, consider options, and assess trade-offs. Waiting until May to begin this work, by contrast, would place the Legislature in a more difficult position and provide little time for careful deliberation.

This report was prepared by Paul Steenhausen and reviewed by Jennifer Pacella. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

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