

The 2024-25 Budget: Higher Education Overview

GABRIEL PETEK | LEGISLATIVE ANALYST | JANUARY 2024

SUMMARY

Governor's Higher Education Budget Plan Relies on Reserves, Deferrals, and Reductions.

The Governor's budget includes \$21.7 billion in General Fund support for higher education in 2024-25—an increase of \$226 million (1.1 percent) from 2023-24. Nearly all of the new discretionary spending is for the California Community Colleges (CCC). The Governor proposes a 0.76 percent cost-of-living adjustment for CCC apportionments and certain categorical programs, along with 0.5 percent systemwide CCC enrollment growth. To cover these costs, together with some baseline CCC costs, the Governor proposes making discretionary withdrawals from the Proposition 98 Reserve (\$236 million in 2023-24 and \$486 million in 2024-25). The Governor proposes no programmatic expansions to student financial aid programs. He also proposes no base increases or enrollment growth for the University of California (UC) or California State University (CSU). The Governor instead proposes to “defer” 5 percent base increases by one year, then double up base increases in 2025-26, along with providing one-time back payments. The Governor also proposes a total of \$2.4 billion in one-time spending reductions to recent higher education initiatives.

Proposed Reductions Are a Practical Start, but Other Proposals Are Poor Fiscal Practice.

Given the state's large projected budget deficit in 2024-25 (potentially upwards of \$58 billion), at least \$2.4 billion in higher education savings seems a practical starting point. The Governor's proposed reductions also generally would be among the least disruptive savings options. Though offering budget solution in 2024-25, all the proposed reductions are one time, such that they do not help the state address the multiyear deficits it faces. The Governor's higher education plan worsens the state's projected budget deficit in 2025-26 substantially, with the proposed deferrals contributing \$1.5 billion to that deficit. The Governor's proposed deferrals for UC and CSU are even worse than the deferrals the state has done to date. Whereas the state typically has used deferrals to protect existing programs from deeper cuts, the Governor is proposing that UC and CSU expand their programs. Rather than increasing university costs, the state historically has contained those costs during such times. The Governor's plan also would increase CCC costs even though available Proposition 98 funding is not sufficient to cover even existing CCC costs.

Recommend the Legislature Build a More Prudent Budget. We recommend the Legislature pull back additional unspent one-time funding from prior budgets. We estimate that hundreds of millions of dollars from recent one-time higher education initiatives remains unencumbered. Pulling back these funds now would allow the Legislature to maintain more of its reserves, which in turn could help protect ongoing programs from cuts over the next couple of years. We also recommend holding UC, CSU, and CCC funding flat in 2024-25 and revisiting those funding levels in 2025-26. Asking UC and CSU to operate their programs at a level the state currently cannot afford puts not only the state and the segments at risk but also other state programs that might be cut next year to make room for the added higher education spending. Similarly, relying on reserves to increase CCC spending in 2024-25 makes managing the CCC budget in 2025-26 even more difficult, with higher spending, lower reserves, and more disruptive choices remaining.

INTRODUCTION

Brief Focuses on the Governor’s Proposed Higher Education Budget Plan. In this brief, we first provide an overview of the Governor’s recently proposed 2024-25 budget plan for higher education. We then assess that plan. We conclude by offering a few budget recommendations for the Legislature to consider. In the brief, we focus on the Governor’s major budget proposals for CCC, CUS,

UC, and the California Student Aid Commission (CSAC). Over the coming weeks, our office plans to release additional budget briefs that delve more deeply into the Governor’s proposals for each of these segments. Beyond these budget briefs, our [EdBudget](#) website contains many budget tables showing the Governor’s education proposals.

OVERVIEW

Below, we summarize (1) General Fund and total core funding proposed for higher education, (2) the Governor’s major higher education spending proposals, and (3) the Governor’s proposed higher education budget solutions (including those related to student housing) that are designed to help the state solve a projected budget deficit in 2024-25.

Funding by Source

Governor Proposes a Small Increase in General Fund Support for Higher Education.

As **Figure 1** shows, the Governor’s budget for 2024-25 includes a total of \$21.7 billion in ongoing

General Fund support for the three segments and CSAC. The proposed 2024-25 funding level is \$226 million (1.1 percent) higher than the 2023-24 level. CSAC receives the largest relative augmentation, growing by 6.2 percent. CCC grows by 1.3 percent, and the university systems experience little or no growth. Nearly all of the funding increase shown in the top portion of the figure is non-Proposition 98 General Fund (which funds many government programs, excluding K-14 education).

Figure 1

Total General Fund Support for Higher Education Grows Under Governor’s Budget

Ongoing General Fund (Dollars in Millions)

	2022-23 Revised	2023-24 Revised	2024-25 Proposed	Change From 2023-24	
				Amount	Percent
CCC ^a	\$8,234	\$8,744	\$8,854	\$110	1.3%
CSU ^b	5,041	5,409	5,344	-65	-1.2
UC ^b	4,377	4,712	4,729	17	0.4
CSAC	2,416	2,655	2,819	164	6.2
Totals	\$20,068	\$21,520	\$21,746	\$226	1.1%
Non-Proposition 98	\$12,434	\$13,331	\$13,553	\$222	1.7%
Proposition 98 ^c	7,634	8,189	8,193	4	0.1
Proposition 98 Reserve ^d	—	236	486	250	106.1

^a Consists of Proposition 98 funds for CCC programs as well as non-Proposition 98 funds for CCC state operations, certain pension costs, and debt service.

^b Consists of non-Proposition 98 funds for all ongoing purposes, including pensions, retiree health benefits, and debt service.

^c Reflects General Fund that counts toward the minimum guarantee. The state sometimes designates some of this General Fund for one-time purposes.

^d The administration proposes to withdraw the shown amounts from the Proposition 98 Reserve to support CCC ongoing apportionment costs. These amounts are excluded from the earlier portions of the table. In 2022-23, the proposed withdrawal is \$11,000.

CSAC - California Student Aid Commission.

Governor Proposes to Withdraw Funds From the Proposition 98 Reserve. In addition to the funds shown in the top portion of Figure 1, the Governor proposes to withdraw funds from the Proposition 98 Reserve in 2023-24 and 2024-25 to support ongoing community college programs. (The Governor also proposes Proposition 98 Reserve withdrawals to support school districts.) Accounting for the Governor’s proposed reserve withdrawals, community college Proposition 98 General Fund support increases 4 percent in 2024-25. The nearby box provides more information about Proposition 98 and the Proposition 98 Reserve.

Community Colleges Benefit From Increases in Local Property Tax Revenue. Whereas CSAC receives most of its funding from the state, the three segments receive substantial core funding from sources other than the state. For CCC, the largest nonstate fund source is local property tax revenue. As **Figure 2** on the next page shows, CCC local property tax revenue is projected to increase \$175 million (4.3 percent) in 2024-25, reflecting growth that is somewhat lower than the historical growth rate over the past 20 years (5.5 percent). After accounting for the increase in local property

tax revenue, along with changes in other core fund sources and the proposed Proposition 98 Reserve withdrawals, CCC funding increases by 3.9 percent.

CSU and UC Benefit From Increases in Student Tuition Revenue. For CSU and UC, the largest nonstate core fund source is student tuition revenue. Both CSU and UC now have policies that increase tuition annually for at least some students. Tuition revenue at CSU and UC also increases as their enrollment increases. Total tuition revenue is estimated to increase 5.4 percent at CSU and 4 percent at UC in 2024-25. After accounting for these increases, along with all other changes in core fund sources, total core funding is estimated to grow 1.2 percent at CSU and 2.2 percent at UC.

Governor Assumes CSU Implements Its New Tuition Policy. CSU’s new tuition policy will go into effect for the first time in 2024-25. The last time tuition increased at CSU was in 2017-18. Under CSU’s new policy, tuition is set to increase 6 percent annually for all students (both undergraduate and graduate students), beginning in 2024-25 and extending through 2028-29. In 2024-25, the annual tuition charge for a full-time student is set at \$6,084 for resident

Background on Community College Budgeting

Community College Budgeting Is Impacted Significantly by Proposition 98.

Proposition 98 (1988) established a constitutional funding formula that sets a minimum annual funding level for K-14 education, commonly known as the “minimum guarantee.” State General Fund and certain local property tax revenue count toward meeting the Proposition 98 minimum guarantee. California Community Colleges receive the bulk of their support from Proposition 98 funds. After calculating the minimum guarantee for any given year, the Legislature has discretion regarding how to allocate Proposition 98 funds among community colleges and school districts. Over the past several years, the Legislature in practice has allocated 11 percent of Proposition 98 funds to community colleges.

Proposition 98 Reserve Is Intended to Help Insulate Colleges From Revenue Fluctuations. Proposition 2 (2014) added constitutional provisions creating the Public School System Stabilization Account (Proposition 98 Reserve). The state generally is required to make deposits into this reserve when capital gains revenue is strong and make withdrawals when state revenue has weakened. The Constitution also allows the Legislature to make discretionary withdrawals if the Governor declares a budget emergency. As with Proposition 98 funds more generally, the Legislature has discretion regarding how to allocate Proposition 98 Reserve withdrawals among community colleges and school districts. To date, the state has made no withdrawals from the account for either colleges or schools. Entering 2022-23, the account held a total of \$8.1 billion in deposits.

undergraduates, reflecting an increase of \$342 over the 2023-24 rates. CSU estimates it will generate \$148 million in additional tuition revenue in 2024-25 from the new policy. CSU plans to use \$49 million of this additional revenue for its systemwide student financial aid program. CSU’s tuition level has long been lower than comparable public institutions nationally. In 2022-23, CSU’s undergraduate tuition level was approximately \$2,100 (28 percent) lower than the national average of comparable public institutions.

Governor Assumes UC Continues to Implement Its Tuition Policy. UC’s tuition policy pegs annual tuition increases to inflation (with certain caps). Incoming undergraduate students and all academic graduate students are subject to the tuition increases, with tuition charges for continuing undergraduate students

held flat. Under the policy, tuition, together with UC’s systemwide fee, is set at \$14,436 for new resident undergraduate students, reflecting an increase of \$684 (5 percent) from the 2023-24 rate. Consistent with its policy, UC also is raising nonresident supplemental tuition in 2024-25. The rate for nonresident undergraduates is set at \$34,200, reflecting an increase of \$1,626 (5 percent) from the 2023-24 rate. UC estimates generating an additional \$191 million in revenue from its tuition increases. It plans to use \$75 million of this additional revenue for its systemwide student financial aid program. UC’s tuition level has long been higher than comparable public institutions nationally. In 2022-23, UC’s undergraduate tuition level was approximately \$2,200 (18 percent) higher than the national average of public institutions classified as having very high research activity.

Figure 2

Increases in Other Core Funds Help Mitigate General Fund Situation

Ongoing Core Funds (Dollars in Millions)

	2022-23 Revised	2023-24 Revised	2024-25 Proposed	Change From 2023-24	
				Amount	Percent
CCC					
General Fund ^a	\$7,634	\$8,189	\$8,193	\$4	0.1%
Local property tax ^a	3,860	4,036	4,210	175	4.3
Additional General Fund ^b	600	555	661	106	19.0
Additional local property tax ^b	451	474	496	22	4.7
Student fees	407	407	409	1	0.4
Lottery	367	316	316	— ^c	-0.1
Subtotals	(\$13,319)	(\$13,977)	(\$14,285)	(\$308)	(2.2%)
Proposition 98 Reserve	— ^c	\$236	\$486	\$250	106.1%
Totals	\$13,319	\$14,213	\$14,771	\$559	3.9%
CSU					
General Fund ^d	\$5,041	\$5,409	\$5,344	-\$65	-1.2%
Student tuition and fees	3,208	3,193	3,366	173	5.4
Lottery	83	76	76	— ^c	-0.1
Totals	\$8,332	\$8,678	\$8,785	\$107	1.2%
UC					
General Fund	\$4,377	\$4,712	\$4,729	\$17	0.4%
Student tuition and fees	5,174	5,390	5,603	213	4.0
Lottery	72	58	58	— ^c	-0.1
Other ^e	243	242	242	—	—
Totals	\$9,866	\$10,412	\$10,642	\$230	2.2%

^a Proposition 98 funds.

^b “Additional General Fund” refers to non-Proposition 98 funds for CCC state operations, certain pension costs, and debt service. “Additional local property tax” refers to “excess” revenue for basic aid districts that does not count toward the Proposition 98 minimum guarantee.

^c Less than \$500,000.

^d Includes funding for pensions and retiree health benefits.

^e Includes a portion of overhead funding on federal and state grants and a portion of patent royalty income.

Governor Proposes No Tuition Increase at CCC. The Governor proposes no increase in the community college enrollment fee—retaining the existing per unit enrollment fee of \$46. The annual enrollment fee for a student enrolled full time (30 units) would remain at \$1,380. The CCC enrollment fee was last raised in summer 2012, at which time the state increased the per-unit fee from \$36 to \$46. Community college fees in California remain the lowest of any state and significantly below the national average. In 2022-23, community college tuition averaged approximately \$5,100 nationally—more than triple the CCC tuition level.

Spending Proposals

Nearly All New Discretionary Spending Is for Community Colleges. As **Figure 3** shows, the Governor proposes \$171 million in new discretionary higher education spending (\$111 million ongoing, \$60 million one time). Nearly all of the proposed new spending is for community colleges. The Governor’s budget proposes to cover a 0.76 percent cost-of-living adjustment (COLA) for CCC apportionments and several CCC categorical programs. (This proposed rate is linked to a measure of inflation that will be updated in late April.) In addition, the Governor’s budget funds 0.5 percent systemwide enrollment growth at CCC. The Governor’s budget includes only one discretionary spending proposal for

the universities—a \$2.6 million General Fund augmentation for UC graduate medical education to backfill for a drop in Proposition 56 tobacco-tax revenues supporting a residency training program. This General Fund backfill would maintain overall program support at \$40 million. Although the Governor proposes no other funding increases for UC or CSU, he expects the two university segments to continue working toward meeting certain enrollment growth targets by 2026-27. (We discuss these enrollment expectations in our forthcoming segment-specific budget briefs.) The Governor’s budget includes no programmatic expansions for student financial aid.

Plan Covers Certain Cost Increases, Mostly in the Financial Aid Area. Beyond these proposals, the Governor’s budget contains funding to cover certain caseload and other cost increases. Specifically, the Governor’s budget covers cost increases projected for the Cal Grant program (\$83 million in 2023-24 and an additional \$148 million in 2024-25), the CCC Student Success Completion Grant program (\$50 million), CSU retiree health care (\$64 million), and debt service for a new medical education building at UC Merced (\$15 million). The projected Cal Grant cost increases include funds to cover the higher tuition costs at UC and CSU, as Cal Grants generally cover tuition costs for students with financial need. The administration typically revises the Cal Grant

and Student Success Completion Grant cost estimates in the May Revision, upon receiving updated caseload data in the spring.

Budget Solutions

Governor Proposes Actions in Response to Projected State Budget Deficit. As we discuss in *The 2024-25 Budget: Overview of the Governor’s Budget*, the state has a large budget deficit. To begin aligning available funding with overall state costs, the Governor proposes budget solutions involving one-time spending reductions, reserve withdrawals, fund shifts, cost shifts, revenue

Figure 3

Despite Budget Deficit, Governor Proposes Some Higher Education Augmentations

Discretionary General Fund Changes (In Millions)

Ongoing Spending Increases	
CCC apportionments (0.76 percent COLA)	\$69
CCC enrollment growth (0.5 percent)	30
CCC categorical programs (0.76 percent COLA)	9
UC graduate medical education (backfill) ^a	3
Subtotal	(\$111)
One-Time Spending	
CCC nursing education ^b	\$60
Subtotal	(\$60)
Total	\$171

^a The Governor proposes to backfill a drop in Proposition 56 tobacco-tax revenue with General Fund.

^b Reflects the first year of a five-year initiative totaling \$300 million.

COLA = cost-of-living adjustment.

increases, and funding delays. As **Figure 4** shows, the Governor relies on three types of solutions within the higher education area—reserve withdrawals, one-time spending reductions, and funding delays. Of the higher education budget solutions, three have Proposition 98 impacts, whereas the remainder have non-Proposition 98 impacts. The Proposition 98 actions involve the proposed discretionary withdrawals from the Proposition 98 Reserve, together with a spending reduction to CCC apportionments. The Governor expresses intent to insulate community colleges from the impact of that reduction, though details of that proposal were not available at the time of this writing. The non-Proposition 98 actions involve several funding reductions and three proposed funding delays.

Governor Proposes Several Higher Education Spending Reductions. The largest of the non-Proposition 98 proposals is removing one-time funding for a recently created higher education housing revolving loan program. This budget proposal achieves one-time General Fund savings of nearly \$1.7 billion. The Governor also proposes to remove \$300 million one-time General Fund for the Institute for Immunology and Immunotherapy, as recent developments suggest the Institute can be developed at a lower than initially expected cost. Additionally, the Governor proposes to remove \$289 million in one-time General Fund support for the Middle Class Scholarship program, with the program retaining \$636 million in ongoing funding.

Figure 4

Governor’s Plan Contains Several Higher Education Budget Solutions

General Fund Adjustments (In Millions)

Segment/Program	Amount	Action	Description
Proposition 98 Solutions			
CCC apportionments	\$910	Reduction	The administration reduces funding in 2022-23 but indicates intent to introduce a proposal insulating community colleges from any associated programmatic effects.
CCC apportionments	486	Reserve	Amount shown would be withdrawn from the Proposition 98 reserve in 2024-25.
CCC apportionments	236	Reserve	Amount shown would be withdrawn from the Proposition 98 reserve in 2023-24.
Non-Proposition 98 Solutions			
University housing revolving loan program	\$1,271	Reduction	Rescinds nearly all 2023-24 funds and forgoes funds scheduled over subsequent five years.
Community college housing revolving loan program	424	Reduction	Rescinds nearly all 2023-24 funds and foregoes funds scheduled over subsequent five years.
UCLA Institute for Immunology and Immunotherapy	300	Reduction	The state provided \$200 million in prior-year, one-time funding for this institute. Proposal would remove remaining one-time funds.
Middle Class Scholarships	289	Reduction	Proposal would remove planned one-time funds for program. Program would retain \$636 million in ongoing funding.
CSU core operations	240	Delay	A 5 percent base increase would be delayed by one year, with the intent to double up base funding in 2025-26, along with providing a one-time back payment.
UC core operations	228	Delay	A 5 percent base increase would be delayed by one year, with the intent to double up base funding in 2025-26, along with providing a one-time back payment.
CCC student housing projects	61	Reduction	Rescinds funds for 2024-25 given no debt-service payments are expected to be incurred that year.
UC nonresident enrollment reduction/replacement plan	31	Delay	New funding for plan would be delayed by one year, with intent to double up funding in 2025-26, along with providing a one-time back payment.
CCC student housing projects	11	Reduction	Converts three projects from debt financing to cash. Reverts remaining unspent funds in 2023-24.

Governor Proposes Some Community College Student Housing Modifications. The 2023-24 budget agreement included \$61.5 million ongoing non-Proposition 98 General Fund to debt finance 16 CCC student housing projects. The Governor has a couple of spending reduction proposals relating to these projects. Though the administration is committed to using a state lease revenue bond to finance 13 of these projects, the associated state program has not yet been established. The Governor intends to submit a proposal designing the new program at the May Revision. Until the new lease revenue bond program is enacted and housing projects have been completed, the state would incur no associated borrowing costs. The Governor therefore proposes to remove the entire \$61.5 million in associated funding in 2024-25. In examining the standard criteria for qualifying for state lease revenue bonds, the administration also has determined that three of the CCC projects (in the Napa, Santa Rosa, and Imperial Valley areas) are not good candidates for this type of financing. The Governor proposes to fund these three projects up-front with cash. Specifically, the Governor proposes using \$50.6 million of the \$61.5 million provided in 2023-24 for debt service for these three projects, generating \$10.9 million in 2023-24 savings.

Governor Proposes to Delay, Then Double Up, Base Increases for UC and CSU. Two years ago, Governor Newsom made “compacts” with UC and CSU to provide annual 5 percent base increases beginning in 2022-23 and extending through 2026-27. (The compacts are not codified. The Legislature decides through the annual budget process which, if any, of the compact components it will enact.) The Governor’s budget does not fund the third year of the base increases. The Governor proposes to delay the associated funding (\$228 million for UC and \$240 million for

CSU) until 2025-26. The Governor expresses intent to “double up” funding in 2025-26, such that each segment would receive 10 percent base increases that year. In addition, the Governor proposes to provide each segment with a one-time back payment in 2025-26 to compensate for the forgone base increases in 2024-25. The administration describes this proposal as a “deferral” of the third-year compact payment. UC and CSU could choose how they address these funding delays. Options include drawing down their reserves or borrowing externally to support spending increases in 2024-25 until state funding is received in 2025-26. The segments tend to use base increases for general operating expenses, including cost increases for employee salaries, benefits, utilities, maintenance, and insurance.

Governor Also Proposes to Delay Funding for UC Nonresident Enrollment Reduction Plan. The state has adopted trailer legislation and budget provisional language specifying intent that each UC campus limit nonresident enrollment to no more than 18 percent of total undergraduate enrollment. Campuses are directed to replace any nonresident students above that cap with resident students. Campuses have until 2026-27 to meet the new requirement, with progress expected each year. To support UC in implementing the plan, the state agreed to provide funding to backfill UC for the loss of nonresident supplemental tuition revenue. Similar to the proposals relating to UC and CSU base increases, the Governor proposes to delay funding for the third year of implementing the nonresident enrollment reduction plan. Specifically, the Governor delays \$31 million until 2025-26, with the intent of doubling up ongoing funding and providing a one-time back payment that year. This proposal impacts the three UC campuses (Berkeley, Los Angeles, and San Diego) that currently are above the 18 percent cap.

ASSESSMENT

Governor’s Higher Education Spending Reduction Package Is a Start. The Governor’s package of proposed higher education spending reductions achieves a total of \$2.4 billion in non-Proposition 98 General Fund savings. Given the state’s large projected budget deficit in 2024-25 (potentially upwards of \$58 billion), at least \$2.4 billion in non-Proposition 98 General Fund higher education savings seems a practical starting point. Moreover, the Governor’s basic approach to building the higher education reduction package appears reasonable, with the Governor pulling back funds from some of the largest remaining one-time higher education initiatives, including a housing revolving loan program and the Institute for Immunology and Immunotherapy. Most of the non-Proposition 98 reductions the Governor proposes also are likely to be among the least disruptive options the state has for achieving budget savings within higher education. Although the state commonly pulls back one-time funds as an initial response to budget problems, these solutions offer no ongoing savings to help the state address the budget deficit projected for 2025-26.

Proposed Funding Delays for UC and CSU Worsen State’s Projected Out-Year Budget Deficits. As discussed in *The 2024-25 Budget: Overview of the Governor’s Budget*, the state faces significant operating deficits in the coming years. The Governor’s proposed funding delays for UC and CSU contribute to those deficits. Specifically, as **Figure 5** shows, they add \$1.5 billion in costs in 2025-26—consisting of \$499 million in one-time back payments and a \$1 billion ongoing General Fund augmentation. Given the state’s projected budget deficit in 2025-26, the additional \$1.5 billion for UC and CSU would require a like amount of other budget solutions, meaning other state programs might need to be cut to make room for the additional higher education spending.

Deferring State Payments Is Poor Fiscal Practice. Our office has long advised against payment deferrals, as paying bills late is poor fiscal practice and ultimately can affect the state’s credit rating, resiliency, and overall fiscal health.

State payment deferrals also can add borrowing costs to the affected government entities—costs the state does not cover. In addition, state payment deferrals transfer risk to the affected government entities, as the state sometimes decides to increase the size of payment deferrals the next year rather than eliminate them. The Governor’s proposed funding delays for UC and CSU have even greater risk than the deferrals the state has done to date. Whereas the state typically has used deferrals to protect existing programs from deeper cuts, the Governor is proposing that UC and CSU expand their programs, despite the multiyear deficits facing the state. Under the Governor’s approach, UC and CSU would enter 2025-26 with higher ongoing spending and lower reserves. Rather than increasing university costs, the state historically has contained those costs during such times.

Growing CCC Apportionment Shortfall Also Is Poor Fiscal Practice. The *2023-24 Budget Act* relied on \$290 million in one-time Proposition 98 funds to support ongoing community college apportionment costs. Under the Governor’s budget, this shortfall grows, reaching \$486 million

Figure 5

Governor’s Plan Generates \$1.5 Billion in Higher State Costs in 2025-26 (In Millions)

One-Time Costs ^a	
CSU base increase (2024-25)	\$240
UC base increase (2024-25)	228
UC nonresident replacement plan (2024-25)	31
Subtotal	(\$499)
Ongoing Costs	
Base adjustments ^b	\$499
CSU base increase (2025-26)	254
UC base increase (2025-26)	241
UC nonresident replacement plan (2025-26)	31
Subtotal	(\$1,025)
Total	\$1,524

^a Reflects payments the Governor proposes deferring from 2024-25 to 2025-26.

^b In 2025-26, the Governor proposes not only to make one-time back payments for costs the universities already incurred in 2024-25, but he also builds up their ongoing base budgets so they can continue to accommodate those costs moving forward.

in 2024-25. Under the Governor's proposal, 5.1 percent of ongoing apportionment costs would be covered with one-time funds. Entering 2025-26, first call on any growth in Proposition 98 funding would be to backfill this \$486 million shortfall (along with any K-12 budget shortfalls). Having an ongoing funding shortfall, especially a large and growing one, positions the state poorly moving forward, making its future choices more difficult.

Proposed CCC COLA Contributes to Overall CCC Funding Shortfall. The Governor not only has UC and CSU increasing their ongoing spending in the midst of projected state deficits, he also has community colleges receiving a COLA for apportionments and several categorical programs in 2024-25. The Governor proposes providing a COLA to these programs even though the Proposition 98 minimum guarantee is not expected to be able to accommodate even the cost of last

year's CCC programs. The Governor must dedicate part of his proposed Proposition 98 Reserve withdrawal in 2024-25 for covering the added cost of the COLA. Historically, the state has not used reserves in this way. Rather, the state historically has used reserves during times of recessions to mitigate the size of base reductions. Importantly, state law does not require the Governor to propose a COLA for community college apportionments or any other community college program, especially one that cannot be accommodated with the Proposition 98 minimum guarantee. If the Governor had aligned the COLA for Proposition 98 programs with available Proposition 98 funding last year, the Proposition 98 budget in 2024-25 would be in balance without requiring reserve withdrawals. (We cover these Proposition 98 issues in more detail in a forthcoming budget brief.)

RECOMMENDATIONS

Pull Back Additional One-Time Funding From Prior Budgets. Though the Governor's package of proposed higher education spending reductions appears a reasonable starting point, we recommend the Legislature pull back additional unspent one-time funding from prior budgets. We are in the midst of working with the segments to identify the amount of one-time funding that remains unencumbered. Additional one-time savings likely could be achieved by removing funds for certain capital projects that remain in early planning phases and removing funds for certain new initiatives that remain in early implementation phases. Based upon our initial review, we estimate the Legislature could achieve at least hundreds of millions of dollars in additional higher education savings. The Legislature might want to take early action to maximize the savings it could achieve in these areas. Maximizing one-time spending reductions allows the Legislature to minimize the use of other budget tools—like reserves—that likely will be needed in future years.

Hold University Funding Flat, Revisit Available Funding Next Year. As we discuss in *The 2024-25 Budget: Overview of the Governor's Budget*, the Governor's budget runs the risk of understating the degree of fiscal pressure facing the state in the future. The state faces significant operating deficits in the coming years, including a \$37 billion deficit in 2025-26 under the administration's projections. The Legislature likely will face more difficult choices next year, with lower reserves and fewer options to reduce one-time spending. Given the difficulty entailed in cutting other ongoing state programs to make room for more higher education spending, there is no guarantee the state would be able to provide UC and CSU with the \$1.5 billion the Governor proposes in 2025-26. To mitigate these challenges, we recommend the Legislature hold university funding and associated spending expectations flat in 2024-25 rather than relying on revenue that is not currently available to support that spending. Such an approach would be consistent with the state's traditional approach of containing rather than increasing university costs when facing multiyear budget deficits.

Hold Community College Funding Flat, Revisit Available Funding Next Year. Similarly, we recommend the Legislature hold community college funding flat in 2024-25 and not provide a COLA to CCC apportionments and certain CCC categorical programs. 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 be minimizing the ongoing shortfall for CCC programs and allowing for better choices in 2025-26.

LAO PUBLICATIONS

This report was prepared by Jennifer Pacella, with contributions from Ian Klein, Lisa Qing, and Paul Steenhausen. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

To request publications call (916) 445-4656. This report and others, as well as an e-mail subscription service, are available on the LAO's website at www.lao.ca.gov. The LAO is located at 925 L Street, Suite 1000, Sacramento, California 95814.