Peralta Community College District

Planning & Budgeting Committee (PBC) Minutes

May 16, 2024, ***9:00 am to 11:00 am***

Meeting Location: Zoom Video Conference ID: 87485899082

PBC COUNCIL MEMBERSHIP	***Membership – 14; Quorum – 8***
Dr. Nathaniel Jones III, Tri-Chair, Acting Vice Chancellor for Finance & Admin.	(Vacant), President, COA
Thomas Renbarger, Tri-Chair, Academic Senate Pres.	Jeffrey Sanceri, President, PFT
Kawanna S. Rollins, Tri-Chair, Classified SEIU Representative	Dr. Stacey Shears, Vice President of Student Services, BCC
Dr. Marla Williams-Powell, Interim Associate Vice Chancellor for Finance & Administration	(Vacant), Student Representative
Matthew Goldstein, DAS President	Dr. Francisco Herrera, Institutional Research Designee
Matthew Freeman, Faculty, BCC	Javier Lopez, Local 39 Representative
Sinead Anderson, SEIU Representative	
David M. Johnson, President, Merritt College	Richard Ferreira, Executive Assistant, District, Notetaker (non-voting)
	***NOTE: Blue identified as absent or vacant.**

Guests

Azul Lewis, Faculty, BCC	
Dave Vigo, Budget Director, Finance & Administration, District	
Dr. Ronald McKinley, Interim Vice Chancellor, HR	
Richard Thoele, President, Local 1021	
Ashish Sahni, Vice President of Administrative Services, Laney	

Planning & Budgeting Committee (PBC)
Minutes

Agenda Item	Committee Goal	Strategic Plan Goal	Outcome	Action Items	Follow Up on Action Items
I. Standing Items					
A. Call to Order			The PBC meeting was called to order at 9:08 am. Quorum was not met.		
B. Adoption of the Agenda			The Agenda was agreed upon to follow and meet due to not meeting quorum.		
C. Approval of Minutes			The Minutes from March 15, 204 and April 19, 2024, will be presented at the next meeting for approval due to not meeting quorum.		
D. Report of Action Taken			There was no report of action taken.		
E. Report of College Budget Committee			BCC Dr. Stacey Shears reported that the budget committee met this week and Parcel Tax Plan Presented. COA did not report. Laney did not report. Merritt did not report.		
F. Public Comments			There was no public comment at this time.		

Planning & Budgeting Committee (PBC)
Minutes

II. Carried-Over and New Items	Committee Goal	Strategic Plan Goal	Outcome	Action Items	Follow Up on Action Items
A. PBC Membership			The PBC Membership was not discussed at this time. (Vacant), President, COA (Vacant), Student Representative the Chancellor reached out to have the student role filled. Need to look to see if the person is available to fill the role. Kawanna Rollins is no longer classified, and we should have someone fill that role. She will continue in the role for this academic year and then have SEIU select a new member moving forward in the Fall.		
B. PBC Taskforce Subcommittee-Proposed Structure		E.3 — Fiscal Oversight	The action item will be deferred until the next meeting due to not meeting quorum. Quorum is needed in order to request the approval from the PBC for the Taskforce.		
C. Measure E Parcel Tax Plan 2024-26			Dr. Nathaniel Jones provided a presentation on the Measure E Parcel Tax Plan 2024-26. The action item will be deferred until the next meeting due to not meeting quorum.		
D. Tentative Budget Assumptions, Projected Revenue/Expenses & Approval Timeline			Dr. Nathaniel Jones provided a presentation on the FY 24-25 Tentative Budget Update: Planning and Budget Council Meeting.		

			Information regarding the budget was provided since January 2024 to the PBC and Districtwide. **The May Revised Highlights:** No major core reductions to CCC programs or services because the budget was supported and balanced using reserves and operational savings. Ongoing spending includes $100M for a COLA of 1.07% instead of the .76% previously proposed. As well as $13M for COLAs & adjustments to certain categorical programs. Retained the proposed enrollment growth of .5% totaling $28M. No change to the previously proposed $60M one-time funding for expansion of Nursing bachelor programs, but add $35M for projects related to Vision 2030 priorities. Capital Outlay funding of $29M for a Prop 51 continuing project.		

			Critical Future Dates: May Revise Dissemination –May 10-14th. PBC –5/16/24 PBC –6/7/24 (special meeting to vote on Tentative Budget ahead of BOT meeting) BOT Meeting –6/11/24 (Tentative Budget 1stRead) BOT Meeting –6/25/24 (Tentative Budget Approval) 2024-25 Budget Act Approval –By June 15th BOT Meeting –9/10/24 (Final Budget Approval) There are no known districts that do zero based budgeting.		
E. Board & Administrative Policies 6250			Not discussed at this meeting.		
F. Future Agenda Items			Noted above of action items for the next meeting.		
III. Next Meetings			June 6, 2024, 9:00 am – 11:00 am (Special Meeting) Note: Date change due to Summer Schedule.		
IV. Adjournment			The PBC meeting was adjourned at 10:53 am.		

Peralta Community College District

Measure E, Parcel Tax Plan

2024-2026

Background

On June 7, 2012, Measure B, a parcel tax was approved by the voters in the Peralta Community College District (District) service area. This provided the District with an annual parcel tax on all parcels located within the District's boundaries of $48 per parcel per year for the duration of 8 years. Measure B ended on June 30, 2020. On November 6, 2018, the voters approved Measure E authorizing a renewal of the 2012 parcel tax of $48 per parcel for 8-years, ending in 2028. Measure E funding is used for maintaining core academic programs, such as Math, Science, and English; training students for careers; and preparing students to transfer to four-year universities. Funds generated by the measure may only be used to augment (rather than substitute for) funds already allocated for supporting core academic programs.

As per Board Policy 6741 Parcel Tax "A parcel tax measure includes strict accountability requirements, including a Citizens Oversight Committee and the development of internal accountability measures, and independent annual financial and performance audits to ensure that all parcel tax funds are used appropriately and effectively and that funds are allocated to provide quality education for our students". In addition, per Administrative Procedure 6741 Parcel Tax "the four Peralta Community Colleges will develop expenditure plans in two-year increments for the funds generated by the Peralta Community Colleges Education Renewal Measure for approval by the Board of Trustees"

According to Board Policy (BP) and Administrative Procedure (AP) 6471, the "voter-approved local funding for affordable college education [...] would include funding for the following:

- Academic Programs (including mathematics, science, English, technology)
- Workforce Preparation
- Career and Job Training
- Preparation for transfer to a four-year university

Measure E, per BP/ AP 6741, is not intended for administrator salaries or pensions. The funds are to be allocated "to provide quality education for our students." Funds are used to augment funding "supporting core academic programs such as mathematics, science, and English. Training students for careers and preparing students to transfer to four-year universities. The funds are to be used for instructional purposes with classified expenditures limited to defined instructional support."

Measure E Parcel Tax Allocation

Over the past two years (FY22 and FY23), the District received on average $8,106,841 from Measure E, Parcel Tax. The District finance department 2024-2025 College allocations are based on a projected revenue level of $8.1M. College Parcel Tax allocations are based on their percentage of the District earned FTES averaged over the previous 3-years FTES.

FTES Target and FTEF Allocation

Annually, the Enrollment Management Workgroup proposes a FTES Target and FTEF funding allocation to the Planning and Budget Council to review and make a formal recommendation to the Chancellor for approval. The FTES target incorporates planned FTES production from credit, non-credit and dual enrollment course offerings. The FTEF funding allocation includes the amount of FTEF to be paid by the Unrestricted General Fund (Fund 01) and the amount to be paid by the Parcel Tax Fund (Fund 08) consistent with the approved Parcel Tax Plan.

FY2024-2025 FTEF Allocation

The below chart details the 2024-2025 FTEF allocation including Parcel Tax revenue (Fund 08).

FTEF Allocation	Alameda	Berkeley	Laney	Merritt	District
FTES 3-year Avg. %	18.76%	22.32%	35.81%	23.10%	100%
Approved Allocation	177.92	219.42	351.11	226.56	975
Breakdown:					
Gen ERN FTEF/Fund 01 (1351)	147.27	175.23	281.15	181.38	795
Dual ENR FTEF/Fund 01 (1358)	4.39	12.94	19.83	12.84	50
Parcel Tax FTEF - Fund 08	26.26	31.25	50.13	32.34	140
Total	**177.92**	**219.42**	**351.11**	**226.56**	**975**

FY2024-2025 Parcel Tax Allocation

The 2024-2025 Parcel Tax allocations are based on the three-year FTES averages and include a 70% commitment to FTEF expenditures.

Parcel Tax Allocation	College of Alameda	Berkeley City College	Laney College	Merritt College	Total
Parcel Tax Allocation	$ 1,501.600	$ 1,785,600	$ 2,864,800	$ 1,848,000	**$ 8,000,000**
Breakdown:					
Non-Instruction (30%)	$ 450,480	$ 535,680	$ 859,440	$ 554,400	**$ 2,400,000**
Instruction-FTEF (70%)	$ 1,051,120	$ 1,249,920	$ 2,005,360	$ 1,293,600	**$ 5,600,000**
Total	**$ 1,501,600**	**$ 1,785,600**	**$ 2,864,800**	**$ 1,848,000**	**$ 8,000,000**

College Projected Expenditure Plans 2024-2026

Every two years, the colleges develop a Parcel Tax Expenditure Plan through a collaborative process involving all constituency members. The Plan is presented to the following participatory groups for review and approval:

I. College Budget Committee- Review and Approval
II. College Council or Roundtable- Review and Approval
III. College Senate- Informational Item
IV. PCCD Planning and Budget Council (PBC)- Review and Approval

After PBC approval, a formal recommendation is made to the Chancellor. Upon Chancellor approval, the Parcel Tax Plan is presented to the Board of Trustees (Board). Once the Parcel Tax Plan has been approved by the Board, it is then presented to the Parcel Tax Oversight Committee.

The Peralta Community College District Planning and Budget Council (PBC) reviewed and approved the PCCD Parcel Tax 2024-2026 Expenditure Plan on May 17, 2024. The PBC recommended the Chancellor approve the plan and present it to the Board of Trustees on June 11, 2024. The Parcel Tax Plan is effective July, 2024.

The 2024-2026 Parcel Tax allocations are based on actual allocations for 2024-2025 and projected allocation for 2025-2026. The 2025-2026 allocation will be calculated by December 2024 along with the updated FTEF calculations. The colleges will update the Plan in spring 2025 for the 2025-2026 academic year. The Plan includes a 70% allocation for FTEF expenditures and 30% for noninstructional student support. Colleges develop expenditures based on individual college, program, and discipline needs to maximize the impact of parcel tax funds on student equity and success.

College of Alameda

To improve equitable student success and access, College of Alameda has been working on establishing structures that support guided pathways. The college has also made a commitment to support students seeking jobs in high-tech, high demand fields. To help students prepare for their career and/or educational pathway, the College has developed robust student support programs and activities.

Instruction Allocation: $1,051,120

Instruction Division	Parcel Tax Projected Expenditures
Career Education	$210,224
Liberal Studies, Language, and Arts	$451,982
Science, Technology, Engineering, Math	$388,914
Total	**$1,051,120**

Noninstructional Allocation: $450,480

Noninstructional/ Student Support Services	Parcel Tax Projected Expenditures
Career Prep Coaches	$40,480
Embedded Tutors (LRC)	$60,000
Adjunct Librarians	$120,000
Fab Lab Techs	$105,000
Student Success Center Faculty Advisors	$75,000
Student Success Coaches Classified Professionals	$50,000
Total	**$450,480**

College of Alameda, College Council Parcel Tax Plan 2024-2026 Approval Date: May 8, 2024

Berkeley City College

For 2024–2026, Berkeley City College will focus on supporting equitable student success and completion in the areas indicated in AB 6741.

Roughly 30% of the allocated funds will support critical positions that provide direct support and guidance for students to achieve their equitable completion and success in tutoring/Learning Resource Center, Library, Science laboratories.

Roughly 70% of the allocated funds will support the courses in the disciplines in English, Mathematics, Sciences, Counseling (courses) and ESOL as well as Social Sciences. Both instructional and non-instructional support provided to students will help assure the continued successful implementation of AB 1705 (students placed and successfully complete college-level Math and English in their first year of their career at BCC) as well as AB 928 or California General Education Transfer Courses for equitable completion of the transfer curriculum.

Career Education and Workforce Development disciplines will also be supported by the Parcel Tax to strengthen and develop further Career Pathways for equitable attainment of living wage jobs in their study field.

Instruction Allocation: $1,249,920

Instruction DIvision	Parcel Tax Projected Expenditures
Liberal arts and Social Sciences	$624,960
Sciences, Technology, Engineering, Math	$374,976
Career Education	$249,984
Total	**$1,249,920**

Noninstructional Allocation: $535,680 (including estimated benefits)

Noninstructional/ Student Support Services	Parcel Tax Projected Expenditures
PT Library Technician	$52,380
Chemistry Lab Technician	$78, 713
Biology Lab Technician	$66,363
Learning Resources Center Coordinator	$102,623
Executive Assistant partial support for parcel tax	$15,157
PT Counselor	$36,981
Embedded Tutors (LRC), English, Math	$100,000
11 month summer counselors	$83,463
Total	**$535,680**

Berkeley City College, Roundtable Parcel Tax Plan 2024-2026 Approval Date: May 15, 2024

Laney College

In 2024-2026, approximately 70% of the allocation will go to support instructional part-time salaries and benefits. Sections funded will be from across the college, representing all divisions. The sections include career education, transfer oriented, and English as a Second Language courses.

30% of the allocation will be dedicated to vital student academic support. The college provides tutoring and has re-structured its services under one coordinator. In 2023-2024, student tutors were embedded in 41 course sections. Over 3,000 student visits at the tutoring center were logged that year. This plan continues funding for tutoring in 2024-2026. The plan continues to fund hours for academic counselors to meet with students and funds a member of the college's Student Outreach and Retention (SOAR) Team. The SOAR Team serves as a point-of-contact for all types of student support, from application through graduation.

Instruction Allocation: $2,005,360

Instruction Division	Parcel Tax Projected Expenditures
Career & Technical Education	$428,581
Humanities, Social Sciences, and the library	$362,885
Kinesiology, Athletics, Health Education, & Counseling	$156,668
Liberal Arts	$632,485
Math, Science, & Engineering	$424,744
Total	**2,005,360**

Noninstructional Allocation: $ 859,440

Noninstructional/ Student Support Services	Parcel Tax Projected Expenditures
Counseling	$374,440
Tutoring coordinator	$160,000
Student tutors	$200,000
SOAR staffing	$125,000
Total	**$859,440**

Laney College, College Council Parcel Tax Plan 2024-2026 Approval date: May 15, 2024

Merritt College

To maximize the impact of parcel tax funds, 70% of the allocation will go to funding part-time salaries to support equitable access to introductory transfer level math and English classes, career and job training through career education courses, and transfer preparation courses in science and applied technology.

The other 30% of the allocation will go to the provision of critical academic support to facilitate transfers to four-year universities through counseling, library services, tutoring, and activities in the Career/Transfer Center.

Instruction Allocation: $1,293,600

Instruction DIvision	Parcel Tax Projected Expenditures
Career Education	$413,952
Liberal Arts	$194,040
Math, Science & Applied Technology	$685,608
Total	**$1,293,600**

Noninstructional Allocation: $554,400

Noninstructional/ Student Support Services	Parcel Tax Projected Expenditures
Counseling	$350,400
Library	$60,000
Student Tutors	$60,000
Career/Transfer Center	$84,000
Total	**$554,400**

Merritt College, College Council Parcel Tax Plan 2024-2026 Approval Date: May 15, 2024

FY24-25 Tentative Budget Update: Planning & Budget Council (PBC) Meeting – 5/16/24

Presenter - Dr. Nathaniel Jones III, Interim Vice Chancellor Finance & Administration

Highlights of Revenues Per FY24-25 Budget Proposal

- Cost of living adjustment (COLA) of **.76%** and a Deficit Factor of **2.0%**
- Proposition 98 General fund for 0.5-percent enrollment growth
- New funding floor
- Affordable Student Housing

Table 3: Proposed 2024-25 Student Centered Funding Formula Rates (rounded)

Allocations	2023-24 P1 Rates[a]	Estimated Proposed 2024-25 Rates[b]	Estimated Change from 2023-24 (Amount)	Estimated Change from 2023-24 (Percent)
Base Credit[a]	$5,238	$5,278	$40	0.76%
Incarcerated Credit[a]	7,346	7,402	56	0.76%
Special Admit Credit[a]	7,346	7,402	56	0.76%
CDCP	7,346	7,402	56	0.76%
Noncredit	4,417	4,451	34	0.76%
Supplemental Point Value	1,239	1,248	9	0.76%
Student Success Main Point Value	730	736	6	0.76%
Student Success Equity Point Value	184	186	1	0.76%
Single College District				
Small College	6,439,546	6,488,487	48,941	0.76%
Medium College	8,586,065	8,651,319	65,254	0.76%
Large College	10,732,581	10,814,149	81,568	0.76%
Multi College District				
Small College	6,439,546	6,488,487	48,941	0.76%
Medium College	7,512,806	7,569,904	57,097	0.76%
Large College	8,586,065	8,651,319	65,254	0.76%
Designated Rural College	2,048,172	2,063,738	15,566	0.76%
State Approved Centers	2,146,516	2,162,829	16,314	0.76%
Grandparented Centers				

Highlights of PCCD Revenues Per FY24-25 Budget Proposal

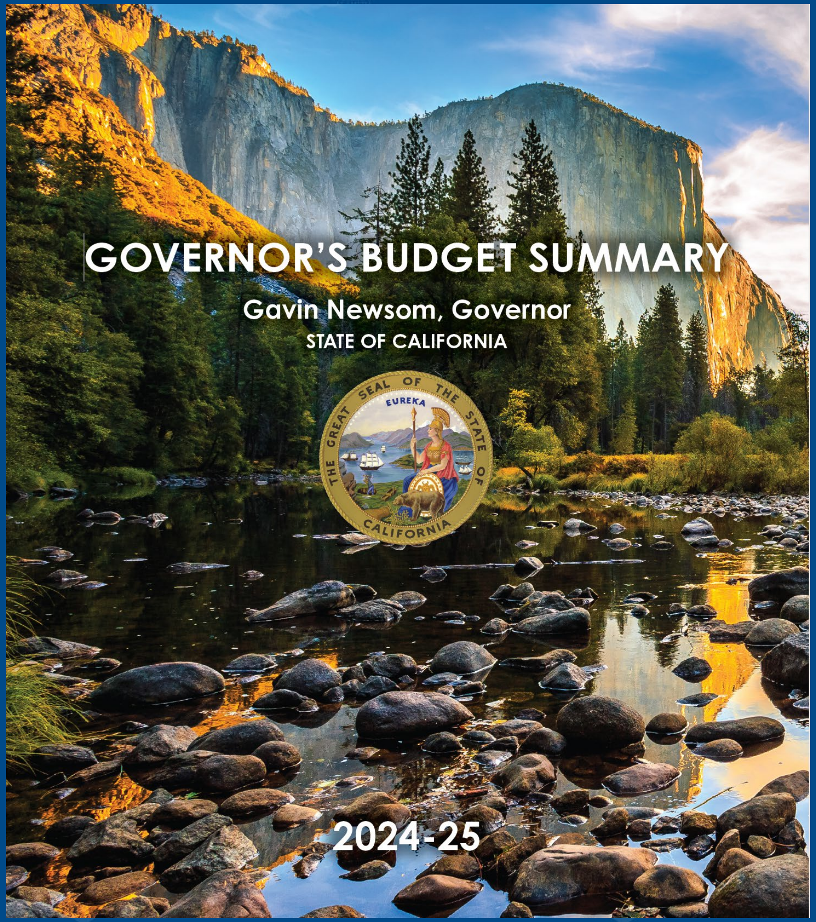
Total Computational Revenues (TCR) estimated to be **$145.4M**, which includes a Deficit Factor of **2.0%**

Selected CCC Categorical programs will also receive **0.76%** COLA

Adult Education Program	$ 4.91
Extended Opportunity Programs and Services (EOPS)	$1.40
Disabled Student Programs and Services (DPS)	$1.31
APPRENTICESHIP (Community College Districts RSI)	$.24
Calworks student services	$.42
Mandates Block Grant and reimbursement	$.94
Cooperative Agencies Resources for Education (CARE)	$.25
Childcare tax bailout	$.03
Adjustment for financial aid admin	$1.53

May Revised Highlights

- No major core reductions to CCC programs or services because the budget was supported and balanced using reserves and operational savings.
- Ongoing spending includes $100M for a COLA of 1.07% instead of the .76% previously proposed. As well as $13M for COLAs & adjustments to certain categorical programs.
- Retained the proposed enrollment growth of .5% totaling $28M.
- No change to the previously proposed $60M one-time funding for expansion of Nursing bachelor programs, but add $35M for projects related to Vision 2030 priorities.
- Capital Outlay funding of $29M for a Prop 51 continuing project.



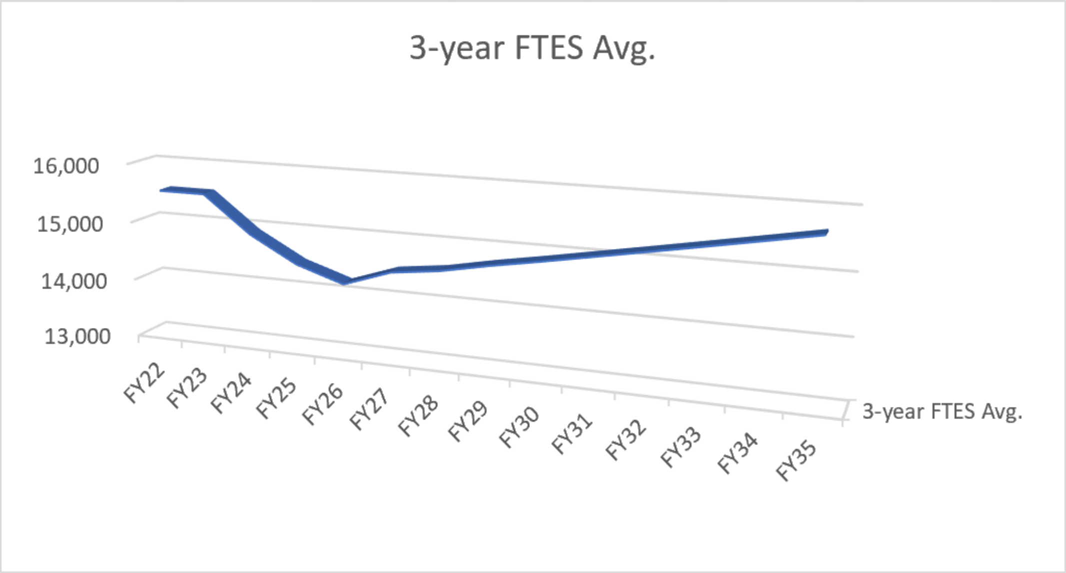
SCFF Data & Sources

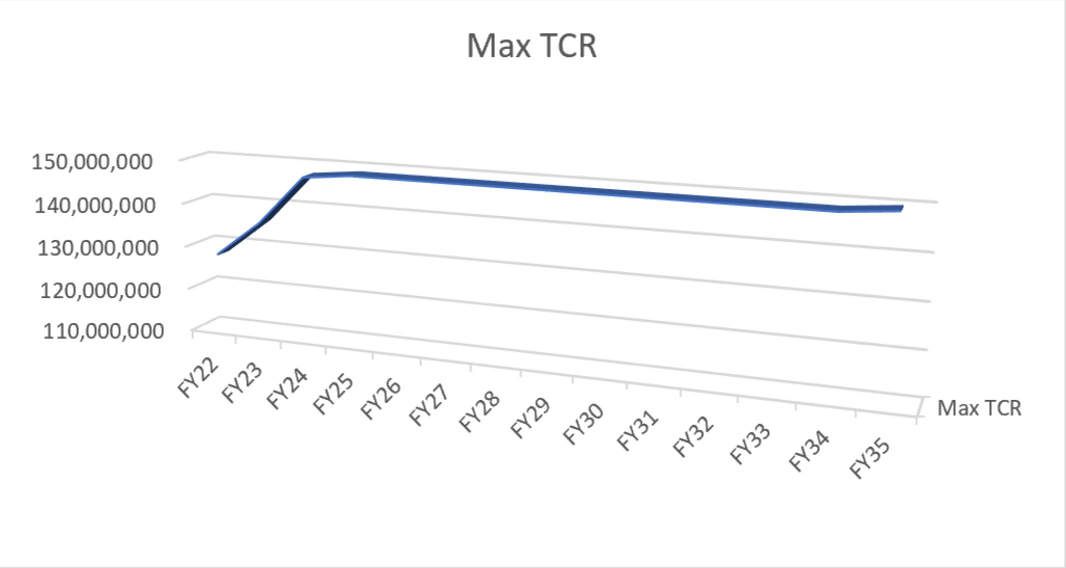
- Credit FTES (3-yrs avg.)
- Supplemental (Prior Year)
- Success (3-yrs avg.)
  - Transfer/4-year Inst. & Living wage Data come from external sources

2022-23 First Principal			
Base Allocation	**Data Year**	**FTES**	**Data Source**
Basic Allocation	2021-22	PY	CCFS 320
Stability Protection Years	2019-20, 2020-21, 2021-22	PY, PPY, PPPY	
FTES Allocation			
Credit (three year average)	2020-21	PPY Applied #3	PPY Applied #1 + Growth
	2021-22	PY Applied #3	PY Applied #1 + Growth
	2022-23	CY Applied #0	CCFS 320
Incarcerated Credit	2022-23	CY	CCFS 320
Special Admit Credit	2022-23	CY	CCFS 320
CDCP	2022-23	CY	CCFS 320
Non Credit	2022-23	CY	CCFS 320
FTES, Restoration Authority Years	2019-20, 2020-21, 2021-22	PY, PPY, PPPY	
Supplemental Allocation	**Data Year**	Counts	**Data Source**
AB 540	2021-22	PY	CCFS
Pell Grant Recipients	2021-22	PY	MIS
Promise Grant Recipients	2021-22	PY	MIS
	Three Year Average		
Student Success Allocation	**Data Year**	**Counts**	**Data Source**
Associate Degrees for Transfer	2019-20, 2020-21, 2021-22	PPPY, PPY, PY	MIS, COCI
Associate Degrees	2019-20, 2020-21, 2021-22	PPPY, PPY, PY	MIS, COCI
Baccalaureate Degrees	2019-20, 2020-21, 2021-22	PPPY, PPY, PY	MIS
Credit Certificates	2019-20, 2020-21, 2021-22		MIS
Completion of Transfer Level Math and English	2019-20, 2020-21, 2021-22	PPPY, PPY, PY	MIS
Successful Transfer to a 4-year university	2019-20, 2020-21, 2021-22	PPPY, PPY, PY	MIS, CSU, UC, NSC
Completion of nine or more CTE units	2019-20, 2020-21, 2021-22	PPPY, PPY, PY	MIS
Regional living wage	2019-20, 2020-21, 2021-22	PPPY, PPY, PY	MIS, EDD UI

PCCD SCFF FTES Projection

Fiscal Year	3-year FTES Avg.	Max TCR	Included FYs	ECA Years	Comments
FY22	15,524	127,788,142	19/20, 20/21, 21/22	3	
FY23	15,524	136,171,044	20/21, 21/22, 22/23	3	ECA ends
FY24	14,903	147,363,304	21/22, 22/23, 23/24	2	
FY25	14,463	148,484,273	22/23, 23/24, 24/25	1	New funf floor established
FY26	14,204	148,484,273	23/24, 24/25, 25/26	0	No increase to Max TCR; Est. FTES grows by 4%/yr.
FY27	14,480	148,484,273	24/25, 25/26, 26/27	0	No increase to Max TCR; Est. FTES grows by 4%/yr.
FY28	14,581	148,484,273	25/26, 26/27, 27/28	0	No increase to Max TCR; Est. FTES grows by 4%/yr.
FY29	14,741	148,484,273	26/27, 27/28, 28/29	0	No increase to Max TCR; Est. FTES grows by 4%/yr.
FY30	14,884	148,484,273	27/28, 28/29, 29/30	0	No increase to Max TCR; Est. FTES grows by 4%/yr.
FY31	15,035	148,484,273	28/29, 29/30, 30/31	0	No increase to Max TCR; Est. FTES grows by 4%/yr.
FY32	15,185	148,484,273	29/30, 30/31, 31/32	0	No increase to Max TCR; Est. FTES grows by 4%/yr.
FY33	15,338	148,484,273	30/31, 31/32, 32/33	0	No increase to Max TCR; Est. FTES grows by 4%/yr.
FY34	15,491	148,484,273	31/32, 32/33, 33/24	0	No increase to Max TCR; Est. FTES grows by 4%/yr.
FY35	15,647	149,484,273	32/33, 33/24, 34/35	0	No increase to Max TCR; Est. FTES grows by 4%/yr.





Budget Assumptions

General Budget Assumptions

1. The 2024/25 General Fund Unrestricted Reserve Fund Balance meet the new policy setting the reserve level to two months of Current Year operating costs or revenues.

2. **GF Revenue allocation to the colleges based on the 3-year FTES average; while the development of expenditure budgets have been informed by college and district plans and our participatory governance processes and engagement (No roll over budgeting).**

3. The expense budget total must be less than or equal to the projected revenue budget amount.

Key FY24 Revenue Assumptions

1. Funded Enrollment: 3 Year Average (FTES) of 14,500 based on the approved 2 years of Emergency Condition Allowance (ECA) and Max Total Computational Revenue (TCR) determined by the Hold Harmless calculation, *but adjusted based on the CCCCO deficit factor of* ***2.0%***
2. *Statutory Cost of Living Adjustment (COLA) from Governor's May Revised proposal of* ***1.07%. Actual COLA will be based on Enacted Budget Act.***
3. Unrestricted lottery estimated at $249.00 per FTES, approximately $6.6M for PCCD
4. Parcel Tax – Measure E is estimated to be $8M (Instruction - 70%, see table).

Key FY24 Expense Assumptions

1. Step and column salary increases are included: estimated at $1.2M,
2. Salaries increased by 85% of state COLA (0.76%) which is 0.646%
3. Include FTEF allocation of 975 (see table for details),
4. PT Faculty costs increased because of 40 FTEF for Dual enrollment budgeted at $44.7K/FTEF added,
5. Benefits costs based on estimates using new SISC rates (increased by 7.4%),
6. Maintain Fund Balance at 2-months operating expenses level,
7. Bad debt payment - $2.0M,
8. Contingency Reserve - $0.5M,

Expenditure Assumptions (Continued)

9. Other Outgoes - $1.85M
   a. Property Insurance - $400K
   b. DSPS - $1.2M
   c. Post Retiree contribution - $250K,

10. OPEB payroll charge 7.50% approximately $6.7M (see Table for details),

11. Contribute $120K for Faculty Professional Development,

12. The total budgeted amount for bond debt service, fees, and interest rate swaps is $17.0M ($6.7M, fund reserve 69 and $10.3M, fund 94),

13. Any restricted funding cuts or cost increases must be borne by the respective program.

FTEF & Parcel Tax Summary

BAM Percentages & Parcel Tax Allocation for Fiscal Year 2024-2025

Parcel Tax Allocation	Alameda	Berkeley	Laney	Merritt	Total
Parcel Tax Funding	$ 1,501,600	$ 1,785,600	$ 2,864,800	$ 1,848,000	**$ 8,000,000**
Breakdown:					
Non-Instruction (30%)	$ 450,480	$ 535,680	$ 859,440	$ 554,400	**$ 2,400,000**
Instruction (70%)	$ 1,051,120	$ 1,249,920	$ 2,005,360	$ 1,293,600	**$ 5,600,000**
Total	**$ 1,501,600**	**$ 1,785,600**	**$ 2,864,800**	**$ 1,848,000**	**$ 8,000,000**

FY24-25 FTEF Allocation

FTEF Allocation	Alameda	Berkeley	Laney	Merritt	District
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FTEF - Fund 08	26.26	31.25	50.13	32.34	140
Total	**177.92**	**219.42**	**351.11**	**226.56**	**975**

Notes:

FTES 3-year Avg. was based on Previous Data

Based on FTEF Allocation Proposal Approved by Chancellor Jackson (11/20/2023)

OPEB Bond Payment Summary

2024-25 Updated Ten-Year OPEB Bond Payment Plan

The Ten-Year Bond Payment Plan has been updated based on current expectations.

TEN-YEAR OPEB BOND PAYMENT PLAN PROPOSED PLAN AS OF MARCH 2024							
Fiscal Year Ending	Estimated Payment Due	Dedicated OPEB Appor-tionment	Supplemental OPEB Appor-tionment	Draw from Trust One [4]	Draw from OPEB Special Reserve Fund	Other Potential Sources	Total Sources
6/30/24	16,500,000	6,700,000	0	9,800,000	0	0	16,500,000
6/30/25	17,000,000	6,700,000	0	10,300,000	0	0	17,000,000
6/30/26	16,499,770	6,700,000	1,000,000	8,799,770	0	0	16,499,770
6/30/27	16,556,744	6,700,000	2,000,000	7,856,744	0	0	16,556,744
6/30/28	17,171,228	6,700,000	3,000,000	7,471,228	0	0	17,171,228
6/30/29	17,787,720	6,700,000	4,000,000	7,087,720	0	0	17,787,720
6/30/30	18,457,907	6,700,000	5,000,000	6,757,907	0	0	18,457,907
6/30/31	19,159,126	6,700,000	6,000,000	6,459,126	0	0	19,159,126
6/30/32	18,638,000	6,700,000	7,000,000	4,938,000	0	0	18,638,000
6/30/33	13,438,478	6,700,000	6,738,478	0	0	0	13,438,478
6/30/34	14,110,402	6,700,000	7,410,402	0	0	0	14,110,402
Total	185,319,375	73,700,000	42,148,880	69,470,495	0	0	185,319,375

Budget Projections

Estimated Expense Increases & Projected Budget Gap

- Trustee Elections - $1.2M
- Salary & Benefit Cost increase - $3.4M (Benefit Increase ~ $1.5M)
- Utility Cost increase – $1.8M
- PT faculty reallocation cost - $2.7M
- Vendor contract cost increases - $.25M
- ***GF Revenue Budget - $163.9M***
- ***GF Expense Budget - $175.1M***
- **Variance – (-$11.2M)**

Proposed Approaches to Close the Budget Gap

Proposed Approaches to Close Budget Gap

Reduce Contracts/Consultants

Reduce travel, conferences & events

Temp salary/benefit savings from vacancies

Districtwide master purchase agreements/expense consolidation

Staffing reorganization/realignment

Temporary Salary/Benefit Savings from Vacancies

1%	3%	4%	5%
$1,514,721 Not recommended	**$4,544,164** Not recommended	**$6,058,885** **Approved**	**$7,573,604** Not recommended

Note: historically, salary/benefit savings have ranged between $8M-$14M.

Proposed Path Forward

Set districtwide discretionary budget reduction target of $2.14M to be achieved through: contract renegotiation, standardization/vendor consolidation, purchase power leveraging, etc.; cross-constituent teams to be established to develop specific cost reduction strategies to achieve the reduction target by the end of FY24-25

Allocate the remaining budget shortfall ($3M) to each location as a budget reduction through curtailing expenses and/or expense shifting to other funds

Vendor Analysis

Vendor Analysis FY23-24 Expenses (Fund 01)

Vendor Name	1- District Office	2 - College of Alameda	5 - Laney College	6 - Merritt College	8 - Berkeley City College	Grand Total
AT&T CALNET 2	46,485.71	11,484.52	11,730.08	34,600.73	14,272.09	118,573.13
BLAISDELL & SONGEY, INC.	5,885.68	13,916.98	34,383.98	16,135.01	10,446.82	80,768.47
BSN SPORTS		12,199.78	11,547.99	1,268.11		25,015.88
CALTRONICS CASH LEASING	105,640.00	20,336.71	55,069.58	21,981.54		203,027.83
CCLC / CCCAA	35,338.00	5,375.00	10,635.00	14,185.00		65,533.00
CDW GOVERNMENT, INC.	34,558.47		39,927.53		13,147.52	87,633.52
COMPUTERLAND OF SILICON VALLEY	191,855.02		31,564.09	11,378.13		234,797.24
EAST BAY MUNICIPAL UTILITY DISTRICT	67,163.80	153,671.94	158,642.53	316,273.03	23,125.07	718,876.37
FOLGER GRAPHICS INC	23,969.07		8,781.41	5,870.81	12,565.19	51,186.48
GRAINGER	45,545.63	9,504.13	13,365.54			68,415.30
GRAND LAKE HARDWARE	25,722.11		340.29	598.10		26,660.50
JJR ENTERPRISES, INC.	5,823.91	5,565.95	16,488.76	898.95	2,147.76	30,925.33
ORKIN PEST CONTROL	4,835.00	3,946.70	7,552.72	11,629.72	280.00	28,244.14
PACIFIC GAS AND ELECTRIC	278,066.30	211,537.72	893,517.29	155,981.05	410,681.64	1,949,784.00
SPURR SCHOOL PROJECT FOR UTILI	43,040.18		52,375.01		3,195.45	98,610.64
STAPLES BUSINESS ADVANTAGE	21,763.24		496.09	3,072.30	814.60	26,146.23
VERITIV	4,078.86	15,329.09	55,877.29	19,469.93		94,755.17
WASTE MANAGEMENT OF ALAMEDA COUNTY	46,734.09	61,356.66	110,703.43	47,179.16		265,973.34
Total						4,174,926.57

Vendor Analysis

Vendor Analysis FY23-24 (Restricted Funds)						
Name	1- District Office	2 - College of Alameda	5 - Laney College	6 - Merritt College	8 - Berkeley City College	Grand Total
ACCESSIBLE INFORMATION MANAGEMENT, LLC		8,748.25	6,561.25	8,748.25	8,748.25	32,806.00
APPLE COMPUTER	51,752.08		10,735.87		7,266.42	69,754.37
B&H PHOTO - VIDEO INC.	41,066.51	13,802.08	49,377.05	793.28	44,485.64	149,524.56
BLAISDELL & SONGEY, INC.	4,756.48	83,769.71	93,236.15	35,389.05	67,666.68	284,818.07
CALTRONICS CASH LEASING	22,954.93	6,237.97	76,123.04	45,737.02		151,052.96
CAREERAMERICA, LLC -DBA OCELOT		44,403.30	50,196.60	48,067.59	47,421.04	190,088.53
CDW GOVERNMENT, INC.	9,614.86	42,194.80	167,717.99	112,957.80	159,222.70	491,708.15
CLARUS CORPORATION		12,500.00	12,500.00	12,500.00	12,500.00	50,000.00
COMMUNITY COLLEGE LEAGUE OF CA	7,290.00	3,000.00	7,000.00		42,736.12	60,026.12
CRANIUM CAFE LLC		39,095.75	39,095.76	39,095.76	39,095.76	156,383.03
DHE COMPUTER SYSTEMS, LLC		4,893.57	81,934.96		80,177.50	167,006.03
FISHER SCIENTIFIC		2,255.87	17,253.90	835.64	10,711.68	31,057.09
FOLGER GRAPHICS INC		34,899.17	2,205.00	2,133.34	40,392.08	79,629.59
FOUNDATION FOR CALIFORNIA COMM	103,796.32	13,541.50		1,300.00		118,637.82
ISLAND ADVERTISING SPECIALTIES		6,097.99	38,371.34	30,650.99	9,663.67	84,783.99
LEADERSHIP EDUCATION FOR ASIAN PACIFICS		400.00	15,000.00		14,560.62	29,960.62
MINT LEAF VIETNAMESE CUISINE		11,113.64	21,332.21	2,900.00	2,995.96	38,341.81
PACIFIC GAS AND ELECTRIC	35,890.39	3,565.47		140,444.93	0.00	179,900.79
PARTNERS IN COMMUNICATION, LLC		1,328.64	121,454.11	9,932.63	2,920.33	135,635.71
PERALTA FED TEACHERS ADMIN FEE		46,693.68	149,478.56	100,452.91	45,690.83	342,315.98
THE BIG APPLE CAFE - KHALIL HAMADEH		18,708.09	14,160.35	355.75	952.95	34,177.14
VWR INTERNATIONAL(SCIENTIFIC INC.)		37,292.01	36,056.69	8,346.72	3,653.77	85,349.19
Total						**2,962,957.55**

Targeted Districtwide Expense Reduction Opportunities

Opportunity for Reduction

Obj. Codes	Expense Category		Budget	Commitment	50% Budget Reduction
5105	Indepenent Contractor/Consultants		$ 8,288,899	$ 7,829,961	$ 4,144,449
5103, 5109	Legal		$ 869,300	$ 809,907	$ 434,650
5202, 5205	Travel/Conferences		$ 499,281	$ 311,904	$ 249,640
5301	Dues & memberships		$ 401,218	$ 324,860	$ 200,609
					$ 5,029,349

Other Opportunities for Expense Reduction

Consolidation

- Office supplies
- Computer hardware & software
- Advertising
- Transportation

Negotiation/Revise Scope

- Utilities
- Security
- Bookstore
- Lease agreements

Budget Reduction Allocation Approaches

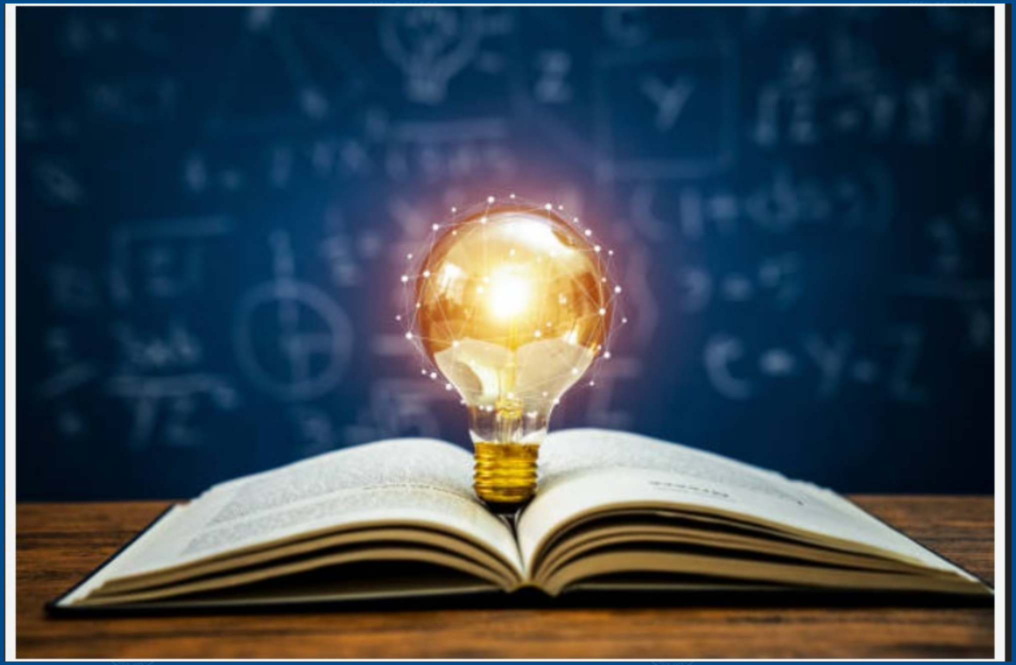
FY 2024-2025 Tentative Budget Projection		
Location	**% - salary/benefits**	**Proposed Budget Reduction by Location ($3M)**
District	19.26%	$ 577,918
CoA	17.05%	$ 511,447
Laney	29.81%	$ 894,431
Merritt	17.94%	$ 538,157
BCC	15.93%	$ 478,048
Grand Total	**100%**	**$ 3,000,000**

District Area	% - FTE	Proposed Budget Reduction by Location ($578K)
Chancellor's Off.	11.33%	65,487
Info. Technology	9.25%	53,465
Mrktg/Comm	6.37%	36,819
Educ. Services	14.29%	82,596
HR/ER	13.89%	80,284
Finance & Admin.	22.57%	130,455
DGS	22.31%	128,952

Critical Future Dates

- May Revise Dissemination – May 10-14th
- PBC – 5/16/24
- PBC – 6/7/24 (special meeting to vote on Tentative Budget ahead of BOT meeting)
- BOT Meeting – 6/11/24 (Tentative Budget 1st Read)
- BOT Meeting – 6/25/24 (Tentative Budget Approval)
- 2024-25 Budget Act Approval – By June 15th
- BOT Meeting – 9/10/24 (Final Budget Approval)

Thoughts/Discussion



Joint Analysis

Governor's 2024-25 May Revision

May 15, 2024

California Community Colleges

ACBO.ORG
ASSOCIATION OF CHIEF BUSINESS OFFICIALS

ASSOCIATION OF CALIFORNIA COMMUNITY COLLEGE ADMINISTRATORS

COMMUNITY COLLEGE LEAGUE OF CALIFORNIA

Table of Contents

Purpose of Report

This analysis was prepared by the California Community Colleges Chancellor's Office (Chancellor's Office) with support from the:

- Association of California Community College Administrators (ACCCA),
- Association of Chief Business Officials (ACBO), and
- Community College League of California (League).

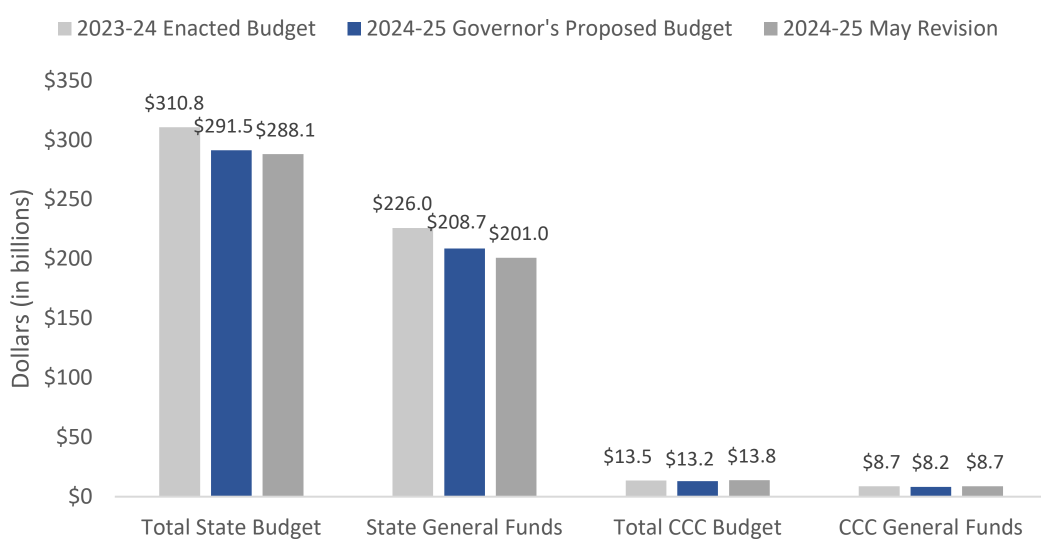
Its purpose is to provide information about the Governor's May Revision as a common resource for each organization's further analyses and advocacy efforts. Over the next couple of months, updated analyses will describe any proposed trailer bills and the enacted budget.

Summary of Key Budget Changes

On Friday, May 10, Governor Newsom held a press conference to announce the major features of the May Revision for the 2024-25 fiscal year, and the Department of Finance has since released more detailed information. Following are some key changes in the proposal compared to the enacted budget for 2023-24 and the Governor's Budget for 2024-25 released in January.

- Under the May Revision, the overall state budget would be lower than proposed in January and lower than the 2023-24 enacted budget, decreasing by about 7% to $288 billion related to a projected budget deficit of $45 billion. General Fund spending would decrease by about $25 billion (11.1%) to $201 billion.

Figure 1: May Revision for 2024-25 budget reflects projected deficit of $45 billion (dollars in billions).



- The budget proposal for the California Community Colleges focuses on stability in the context of the significant budget deficit. It includes no major core reductions to programs or services, instead drawing on reserves and operational savings to bring the overall budget in balance. Overall, funding increases slightly compared to the current year enacted budget.

- Revised proposals for ongoing spending include about $100 million for a 1.07% cost-of-living adjustment (COLA) for community college apportionments, $31 million more than the Governor's original proposed COLA of 0.76% in the January budget proposal. The proposal also includes an additional $13 million for COLAs and adjustments to certain categorical programs, and $28 million for systemwide enrollment growth of 0.5%.

- One-time funding in the revised proposal remains limited but retains the previously proposed $60 million for expansion of nursing program capacity from the Governor's Budget and adds $35 million for several projects related to the system's Vision 2030 priorities.

- The Governor's revised proposal includes $29 million in capital outlay funding from Proposition 51 to support the working drawings and construction phases for one continuing project, the same as included in the Governor's Budget.

Changes in Overall Budget Framework

The Governor's May Revision proposes modest additional ongoing resources of approximately $142 million to California Community Colleges appropriations and categorical programs, as compared to the 2023 Budget Act, up from the $110 million increase proposed in January.

REVISED BUDGET PROPOSAL REFLECTS HIGHER EXPECTED DEFICIT

In January, the Administration projected a $38 billion deficit for 2024-25 which, while significant, was smaller than that estimated by the Legislative Analyst's Office (LAO). In February, the LAO provided an updated estimate that substantially increased its own deficit projection based on revenue collections that continue to lag behind projections, which were nearly $6 billion below projections at the end of March. In its update, the LAO recommended budget solutions that start with pulling back or reducing specified one-time and temporary spending that has yet to be disbursed or committed, with the largest amounts related to the environment, infrastructure, and housing. The Governor's May Revision also reflects the lower-than-projected state revenues and now projects a total budget deficit of $44.9 billion, an increase of $7 billion over the $38 billion estimated in the Governor 's Budget. The proposal expects an additional $28.4 billion deficit for 2025-26 (for deficits totaling about $73 billion over two years). The Administration cautions that persistent inflation and elevated interest rates could hamper economic activity by more than projected and worsen budget conditions.

EARLY ACTION PLAN TOOK SOME STEPS TO ADDRESS DEFICIT

Assembly Bill 106, passed in April, amended the Budget Act of 2023 to reduce the expected $45 billion shortfall by $17.3 billion. The early action agreement included a mix of $3.6 billion in reductions (primarily to one-time funding), $5.2 billion in revenue and borrowing, $5.2 billion in delays and deferrals, and $3.4 billion in shifts of costs from the General Fund to other state funds. The primary higher education-related issue included in the early action plan was a $499 million deferral of the expected five percent increase in funding for the University of California (UC) and California State University (CSU) systems under the Compacts. While no changes to CCC funding were included in the plan, the bill's language authorizes the Administration to freeze additional one-time funding from the 2021, 2022, or 2023 Budget Acts.

SOME ADDITIONAL ACTIONS ARE PLANNED OVER TWO YEARS

The revised budget plan uses several mechanisms to close the remainder of the projected shortfall for 2024-25 of $27.6 billion, including some funding delays and reductions from the 2022-23 and 2023-24 budgets, internal borrowing and fund shifts, and withdrawal of some state reserves. The proposal maintains the Governor's Budget withdrawal of $12.2 billion from the Budget Stabilization Account (BSA) and $900 million from the Safety Net reserve but spreads the use of the BSA withdrawal over two years such that $3.3 billion would be used in 2024-25 and $8.9 billion would be shifted to 2025-26. Spreading the use of reserves over two years would leave nearly $23 billion in reserves in 2024-25, including $19.4 billion in the BSA and $3.4 billion in the Special Fund for Economic Uncertainties.

The May Revision includes other proposals to address the projected deficit for 2025-26 through similar mechanisms as those planned for 2024-25, and notes that two-year budget planning should be the approach going forward. As was the case in the Governor's Budget, the May Revision points to the need for legislation that would allow the state to save more during economic upswings to better protect state services during budget downturns, and proposes a requirement that the state set aside a portion of any anticipated surplus in a new reserve account to be allocated in a subsequent budget year once it actually materializes. This could be easier than amending Proposition 2 to allow larger deposits into the BSA, which would require voter approval.

ENACTED BUDGET COULD INCLUDE ALTERNATIVE SOLUTIONS

It is critical to note that the final enacted budget may look different than the May Revision proposal and will be developed through negotiations between the Administration and Legislature. The Chancellor's Office has received numerous requests for information regarding remaining unspent funds in various areas. The May Revision continues to borrow nearly $9 billion from future non-Proposition 98 sources which has drawn criticism from both the Legislative Analyst's Office and various K-14 stakeholder groups. Should the concept of borrowing from future non-Proposition 98 sources be rejected by the Legislature, it could lead to programmatic reductions and/or deferrals. Active discussions around alternative budget solutions are ongoing. The Chancellor's Office will continue to advocate for funding stability given community colleges' central role in providing equitable access to higher education, serving as engines of social and economic mobility for Californians, and bolstering the state's economy.

Changes to California Community Colleges Funding

In this section, we detail changes to proposals included in the Governor's Budget (and described in our January analysis) and describe new proposals presented as part of the May Revision.

PROPOSITION 98 ESTIMATE REMAINS SIMILAR

Minimum Guarantee for Community Colleges Shows Small Increase

The Governor's Budget in January revised Proposition 98 estimates for current and prior years downward based on weaker than expected revenues. Table 1 shows the Department of Finance's estimates of the minimum guarantee for the current and budget years as of the May Revision, demonstrating an even larger reduction for 2023-24 ($102.6 billion rather than the $105.6 billion estimated in January). The minimum guarantee for 2024-25 is $109.1 billion, about the same as was estimated in January. As noted earlier, the 2024-25 estimate reflects the continued reliance on a budget maneuver that postpones recognition of overpayments to districts for 2022-23 that ended up exceeding revised Proposition 98 estimates for that year by $8.8 billion (pushing the cost for that overpayment to the future).

Table 1: California Community Colleges Proposition 98 Funding by Source (In Millions)

Source	2023-24 Revised	2024-25 Governor's Budget (GB)	2024-25 May Revision	Change From GB (Amount)	Change From GB (Percent)
ALL PROPOSITION 98 PROGRAMS					
General Fund	$71,500	$76,894	$76,606	$(288)	-0.4%
Local property tax	31,072	32,185	32,524	$339	1.1%
Totals	$102,572	$109,050	$109,129	$79	0.1%
COMMUNITY COLLEGES ONLY [a]					
General Fund	$7,851	$8,193	$8,336	$143	1.7%
Local property tax	4,075	4,210	4,285	$75	1.8%
Totals	**$11,926**	**$12,403**	**$12,621**	**$218**	1.8%

[a] CCC totals include resources that go to the K-12 system via the Adult Education, Apprenticeship, and K-12 Strong Workforce programs.

District Revenue Protections Continue

The 2021 Budget Act extended the Student Centered Funding Formula's (SCFF) hold harmless provision through 2024-25, under which districts will earn at least their 2017-18 total computational revenue (adjusted by COLA each year). The 2022 Budget Act extended the revenue protections in a modified form beginning in 2025-26, with a district's 2024-25 funding representing its new "floor." Starting in 2025-26, districts will be funded at their SCFF generated amount that year or their "floor" (2024-25 funding amount), whichever is higher. This revised hold harmless provision will no longer include adjustments to reflect cumulative COLAs over time, as is the case with the provision in effect through 2024-25, so a district's hold harmless amount would not grow.

Withdrawal from Public School System Stabilization Account (PSSSA)

Proposition 2, approved by voters in November 2014, created the PSSSA, a state reserve for schools and community colleges that receives funding if several conditions are satisfied. The Governor's Budget proposed withdrawals of about $236 million for 2023-24 and $486 million for 2024-25 to support Student Centered Funding Formula resources. The May Revision increases the proposed withdrawals to $532.5 million for 2023-24 and $381.5 million for 2024-25 related to the state's decreased revenues. The proposal would eliminate the balance in the PSSSA at the end of 2024-25.

CALIFORNIA COMMUNITY COLLEGES FUNDING INCREASES

The May Revision increases funding for the California Community Colleges by $59 million compared to the Governor's Budget, as reflected in Table 2. The system would receive about $24 million in additional ongoing funding and base adjustments and $35 million for additional one-time programs and initiatives compared to what was proposed in January.

Table 2: Proposed 2024-25 Changes in Proposition 98 Funding for the System (In Millions)

	Governor's Budget	May Revision	Change from Governor's Budget
POLICY ADJUSTMENTS			
Ongoing (Proposition 98)			
Provide 1.07% COLA for SCFF	$69.15	$100.22	$31.07
Provide for 0.5% enrollment growth	$29.59	$28.09	-$1.49
Provide 1.07% COLA for Adult Education Program	$4.91	$6.92	$2.00
Provide 1.07% COLA for Extended Opportunity Programs and Services (EOPS)	$1.40	$1.96	$0.56
Adjustments for financial aid administration	$1.53	$1.93	$0.40
Provide 1.07% COLA for Disabled Students Programs and Services (DSPS)	$1.31	$1.85	$0.54

Provide 1.07% COLA for Apprenticeship (community college districts RSI)	$0.24	$0.35	$0.11
Provide 1.07% COLA for CalWORKs student services	$0.42	$0.59	$0.17
Provide 1.07% COLA and an enrollment-based adjustment for Mandates Block Grant and reimbursements	$0.94	$0.52	-$0.42
Provide 1.07% COLA for Cooperative Agencies Resources for Education (CARE)	$0.25	$0.36	$0.11
Provide 1.07% COLA for Childcare tax bailout	$0.03	$0.05	$0.01
Subtotal Ongoing (Proposition 98) Policy Adjustments[a]	**$109.78**	**$142.82**	**$33.04**
One-Time (Proposition 98)			
Expand nursing program capacity	$60.00	$60.00	$0.00
Expand eTranscript California	$0.00	$12.00	$12.00
Common cloud data platform demonstration project	$0.00	$12.00	$12.00
Mapping pathways for Credit for Prior Learning	$0.00	$6.00	$6.00
Pathways for low-income workers demonstration project	$0.00	$5.00	$5.00
Subtotal One-Time Policy Adjustments	**$60.00**	**$95.00**	**$35.00**
TECHNICAL ADJUSTMENTS			
Student Centered Funding Formula (SCFF) other base adjustments (aside from COLA and Growth)[b]	-$111.92	-$120.69	-$8.77
Subtotal Technical Adjustments	**-$111.92**	**-$120.69**	**-$8.77**
TOTAL CHANGES	**$57.86**	**$117.13**	**$59.27**

[a] The subtotal for ongoing policy adjustments does not match what was shown in Table 2 of our Joint Analysis of the Governor's Budget report in January. That table mistakenly included an adjustment for Affordable Student Housing that does not involve Proposition 98 funds.

[b] SCFF technical adjustments match estimated resources with DOF's estimates of workload measures including reported FTES, supplemental, and success metrics.

The estimated and proposed Total Computational Revenue (TCR) for the SCFF increases by $7.6 million from $9.56 billion to $9.57 billion. This reflects a proposed COLA of 1.07% ($100.2 million) and $28 million for FTES growth of 0.5% and modified estimates for hold harmless and other underlying estimation factors. Further, the following adjustments are reflected in associated offsetting revenues (all comparisons are from the 2023-24 Budget Act to the 2024-25 Governor's May Revision proposal):

- Property tax revenues are estimated to increase by $144.3 million from $4.0 billion to $4.1 billion.
- Enrollment Fee revenues are estimated to decrease by $1.4 million from $407.5 million to $406.1 million.
- Education Protection Account funding is estimated to decrease by $150.7 million from $1.54 billion to $1.39 billion.

Table 3 reflects the final SCFF rates for 2022-23 and 2023-24, along with the projected rates for 2024-25, as modified by COLA.

Table 3: Proposed 2024-25 Student Centered Funding Formula Rates (rounded)

Allocations	2023-24 Rates*	Proposed 2024-25 Rates	Estimated Change from 2023-24 (Amount)	Estimated Change from 2023-24 (Percent)
Base Credit*	$5,238	$5,294	$56	1.07%
Incarcerated Credit*	7,346	7,425	79	1.07%
Special Admit Credit*	7,346	7,425	79	1.07%
CDCP	7,346	7,425	79	1.07%
Noncredit	4,417	4,465	47	1.07%
Supplemental Point Value	1,239	1,252	13	1.07%
Student Success Main Point Value	730	738	8	1.07%
Student Success Equity Point Value	184	186	2	1.07%
Single College District				
Small College	6,439,546	6,508,449	68,903	1.07%
Medium College	8,586,065	8,677,936	91,871	1.07%
Large College	10,732,581	10,847,420	114,839	1.07%
Multi College District				
Small College	6,439,546	6,508,449	68,903	1.07%
Medium College	7,512,806	7,593,194	80,387	1.07%
Large College	8,586,065	8,677,936	91,871	1.07%
Designated Rural College	2,048,172	2,070,088	21,915	1.07%
State Approved Centers	2,146,516	2,169,484	22,968	1.07%
Grandparented Centers				
Small Center	268,316	271,187	2,871	1.07%
Small Medium Center	536,629	542,371	5,742	1.07%
Medium Center	1,073,257	1,084,741	11,484	1.07%
Medium Large Center	1,609,886	1,627,112	17,226	1.07%
Large Center	2,146,516	2,169,484	22,968	1.07%

** Ten districts receive higher credit FTE rates, as specified in statute.*

Appendix B compares the Governor's May Revision to the 2024-25 Board of Governors' budget request. Below we update information on the administration's more significant policy decisions and related information.

MAJOR POLICY DECISIONS FOCUS ON STABILITY

The revised budget proposal continues to include funding for a small COLA and enrollment growth, supported by withdrawals from the PSSSA. The one-time funds included in the proposal are targeted toward expanding nursing program capacity and several projects related to the system's Vision 2030 priorities.

Apportionments Receive 1.07% COLA and 0.5% Growth

The proposal includes an increase of $28 million **ongoing** to fund 0.5% enrollment growth and $100.2 million **ongoing** to support a COLA of 1.07% for apportionments. While much smaller than in the last few years, the proposed COLA is the same as for the K-12 system. Another $13.1 million **ongoing** would support a COLA of 1.07% for selected categorical programs and the Adult Education program.

Proposal for Investment in Nursing Workforce is Maintained

The May Revision continues to include a proposed investment of $60 million **one-time** to begin addressing California's nursing shortage, with the goal of providing that amount per year over the next five years to expand Associate Degree in Nursing (ADN) program capacity in the community colleges and Bachelor of Science in Nursing (BSN) partnerships with four-year universities. The proposal follows through on intent language included in the current year budget. Provisions governing how the funds are to be spent will be negotiated through the legislative trailer bill process.

Funds for Low-Income Workers Project are Included

The revised budget proposal includes $5 million **one-time** for a Pathways for Learners of Low-Income Demonstration Project. The project involves a partnership to support the development of educational pathways for working learners in the United Domestic Workers (UDW) by leveraging data analysis to identify their educational goals and relevant certificates and degrees at California community colleges, with the flexible modalities and student supports that low-income learners need. The homecare and childcare workforce are historically underrecognized and underserved, and this partnership seeks to empower these communities by assisting them to further their expertise in a myriad of educational fields, while dismantling barriers and constructing statewide educational pathways for these working learners. This will include supporting providers in applying for supportive services like childcare and transportation, lending laptops and electronics, and providing other instructional materials. Union representatives will assist in identifying additional barriers to community college integration and creating a pipeline between the Chancellor's Office and UDW to provide continuous support for these workers and their families. Current planning is for three cohorts of at least sixty students that would be enrolled in vocational English as a Second Language (ESL) courses and healthcare courses, with other classes and certifications being identified by Summer 2024.

Proposal Supports Mapping Credit for Prior Learning Pathways

The May Revision includes $6 million **one-time** for a Mapping Articulated Pathways for Credit for Prior Learning (CPL) Demonstration Project. The effort will seek to embed CPL policies on pathways to provide greater access for working adults toward high-demand, high-wage careers. Several colleges would receive a grant to establish campuswide practices in awarding credit for prior learning or develop a comprehensive framework to institutionalize this practice, resulting in equitable access and successful completion, transfer, and livable wage employment for working adults. The goal is to use technology to automate and streamline the articulation process while making articulations at one college shareable and adoptable at other colleges, creating a transparent ecosystem that maximizes credit for prior learning and allows students to access their eligible credits at participating colleges. Given the central role they play in the articulation process, the grants could also be used to provide faculty with professional development and technical assistance that promotes cultural and academic development.

Investments Would Support Systemwide Technology Adoption

The Governor's revised proposal includes $12 million **one-time** for a Common Cloud Data Platform Demonstration Project. The funds would support efforts to chart the challenges and benefits of establishing a shared, multi-district data infrastructure. The three-year project would create a "Digital Transformation Center" and, by leveraging pre-existing partnerships among districts, would deliver a core data architecture and a set of data governance principles to yield functional and fiscal benefits to individual college districts and the system office. The work would establish a foundation for a future shared solution to expand statewide, with streamlined accountability reporting, fiscal reporting, security, and analytics.

The proposal also includes $12 million **one-time** to support the expansion of e-Transcript California across all 116 colleges. The funding would allow colleges to capture as much student record movement between segments as possible, reducing reliance and usage of commercial third-party transcript ordering services. The funding would support grants to colleges to offset local costs related to one-time connectivity, setup, and integration of the platform.

Statewide Funding Plan for Approved Affordable Student Housing

The 2023 Budget Act eliminated the 2022-23 General Fund appropriation for the Affordable Student Housing grants and instead called for those projects to be funded by locally issued lease revenue bonds. This change retroactively applied to the twelve community college projects originally funded in the 2022 Budget Act, and the seven community college housing projects authorized in the 2023 Budget Act, as well as any future affordable student housing projects. The 2023 Budget Act provided ongoing funds to support debt service for UC/CSU student housing projects in 2022-23 and 2023-24 funded with lease revenue bonds. Community college housing projects were to be funded through local revenue bonds to be issued by community college districts or as part of a state pool. The May Revision continues the plan for a *statewide* lease revenue bond program as an alternative to local lease revenue bonds that was outlined in the Governor's Budget, with trailer bill language expected to be released soon. The bond program would cover 13 approved projects (excluding the four intersegmental projects to be funded by UC/CSU and the two CCC projects not appropriate for the state revenue lease bond). The two CCC projects that do not fit within the parameters of a state revenue lease bond will be funded with redirected annual rent subsidy funds from the $61.5 million in non-Prop. 98 funds initially authorized by the Higher Education Student Housing Grant Program for debt service in 2023-24. No new projects are expected to be approved in 2024-25.

Cal Grant Reform Options Under Consideration for Future Years

The Fiscal Year 2022-23 State Budget enacted the Cal Grant Reform Act, making *all* community college students with financial need entitled to a revised "Cal Grant 2" financial aid award that would increase with inflation over time to support students' total cost of attendance beyond tuition. However, implementation of the Cal Grant Reform Act was made dependent on the DOF determining, in the spring of 2024, that there would be sufficient revenues over a multi-year period to support this expansion of financial aid. Full expansion would add approximately $245 million to the $2.4 billion cost of the program in 2024-25, a challenging prospect in the context of the significant deficit. While the May Revise does not include funding to implement the Cal Grant Reform Act, legislative leaders have publicly discussed options that would include incremental, phased-in steps toward full implementation. Ideas for a partial roll-out to limit the cost include increasing community college cash award amounts to reflect inflation without expanding eligibility, maintaining the 2.0 GPA requirement to qualify for a grant but reducing the number of units required, or making a further reduction to the income limits to qualify for grants. A final determination will be dependent on negotiations between the Administration and the Legislature.

LOCAL SUPPORT FUNDING IS LARGELY STABLE FOR ONGOING PROGRAMS

Table 4 shows proposed local assistance funding by program for the current and budget years as of the May Revision. As the table shows, most categorical programs received level or workload funding in the Governor's revised proposal, with certain programs receiving cost-of-living adjustments consistent with recent practices. Decreases in funding are related to revised estimates of underlying factors.

Table 4: California Community Colleges Ongoing Funding by Program[a] (In Millions)

Program	2023-24 Revised	2024-25 Proposed	Change Amount	Percent Change	Explanation of Change
Student Centered Funding Formula	$ 9,563.70	$ 9,571.33	$ 7.62	0.08%	2023-24 updated as of May Revise. 2024-25 adjusted for COLA, growth, and other base adjustments
Adult Education Program – Main[b]	652.22	659.14	6.91	1.06%	COLA
Student Equity and Achievement Program	523.98	523.98	0.00	0.00%	
Student Success Completion Grant	362.60	412.60	50.00	13.79%	Adjust for revised estimate of recipients
Part-time faculty health insurance	200.49	200.49	0.00	0.00%	
Strong Workforce Program	290.40	290.40	0.00	0.00%	
Extended Opportunity Programs and Services (EOPS)	183.08	185.04	1.96	1.07%	COLA
Disabled Students Programs and Services (DSPS)	172.82	174.67	1.85	1.07%	COLA
Full-time faculty hiring	150.00	150.00	0.00	0.00%	
California College Promise (AB 19)	91.21	91.21	0.00	0.00%	
Integrated technology	89.50	89.50	0.00	0.00%	
Financial aid administration	78.49	80.42	1.93	2.46%	Waived fees and per unit adjustments
CalWORKs student services	55.05	55.64	0.59	1.07%	COLA
NextUp (foster youth program)	54.11	54.11	0.00	0.00%	
Basic needs centers	43.29	43.29	0.00	0.00%	
Institutional effectiveness initiative	41.50	27.50	-14.00	-33.73%	Removal of one-time funds
Mathematics, Engineering, Science Achievement (MESA)	39.42	39.42	0.00	0.00%	

Mandates Block Grant and reimbursements	38.29	38.80	0.51	1.32%	COLA and enrollment-based adjustment
Apprenticeship (community college districts)	34.34	34.69	0.35	1.01%	COLA and technical adjustment
Cooperative Agencies Resources for Education (CARE)	33.48	33.84	0.36	1.07%	COLA
Student mental health services	32.47	32.47	0.00	0.00%	
CA Apprenticeship Initiative	30.00	30.00	0.00	0.00%	
Part-time faculty compensation	26.54	26.54	0.00	0.00%	
Rising Scholars Network	25.00	25.00	0.00	0.00%	
Part-time faculty office hours	23.63	23.63	0.00	0.00%	
Economic and Workforce Development	22.93	22.93	0.00	0.00%	
Homeless and Housing Insecurity Program ("Rapid Rehousing")	20.56	20.56	0.00	0.00%	
California Virtual Campus	20.00	20.00	0.00	0.00%	
California Online Community College (Calbright College)	15.00	15.00	0.00	0.00%	
Equal Employment Opportunity Program	17.08	13.88	-3.21	-18.76%	Includes $12.77 million ongoing and adjustments for annual one-time funds sourced from faculty obligation penalties.
Nursing grants	13.38	13.38	0.00	0.00%	
Puente Project	13.33	13.33	0.00	0.00%	
Lease revenue bond payments	12.80	12.79	-0.01	-0.08%	Lease Revenue Debt Service adjustments
Dreamer Resource Liaisons	11.60	11.60	0.00	0.00%	
Veterans Resource Centers	10.82	10.82	0.00	0.00%	
Immigrant legal services through CDSS	10.00	10.00	0.00	0.00%	

Classified Employee Summer Assistance Program	10.00	10.00	0.00	0.00%	
LGBTQ+ Student Support	10.00	10.00	0.00	0.00%	
Umoja	9.18	9.18	0.00	0.00%	
Asian American and Native Hawaiian and Pacific Islander (AANHPI) Student Achievement Program	8.00	8.00	0.00	0.00%	
Foster Parent Education Program	6.15	6.15	0.00	0.00%	
Childcare tax bailout	4.28	4.32	0.05	1.08%	COLA
Digital Course Content for Inmates	3.00	3.00	0.00	0.00%	
Middle College High School Program	1.84	1.84	0.00	0.00%	
Academic Senate	1.80	1.80	0.00	0.00%	
Historically Black Colleges and Universities (HBCU) Transfer Pathway project	1.38	1.38	0.00	0.00%	
African American Male Education Network and Development (A2MEND)	1.10	1.10	0.00	0.00%	
FCMAT	0.85	0.77	-0.08	-8.88%	Removal of one-time funds
Transfer education and articulation (excluding HBCU Transfer Pathway project)	0.70	0.70	0.00	0.00%	
Total	**$13,061.38**	**$ 13,116.21**	**$54.83**	**0.42%**	

[a] Table reflects total programmatic funding for the system, including amounts from prior years available for use in the years displayed.
[b] The Adult Education program total includes resources that go to the K-12 system but are included in the CCC budget. The K-12 Strong Workforce program and K-12 Apprenticeship program are not listed above but are also included in the CCC budget.

Table 5 shows proposed one-time local assistance funding by program for 2024-25. Given the expected state budget deficit, the budget proposal for community colleges includes only a few one-time investments.

Table 5: California Community Colleges One-Time Funding by Program[a] (In Millions)

Program	2023-24 Revised	2024-25 Proposed	Explanation of Change
Nursing program capacity	0.0	60.0	One-time funds added
Pathways for Low-Income Workers Demonstration Project	0.0	5.0	One-time funds added
Common Cloud Data Platform Demonstration Project	0.0	12.00	One-time funds added
Mapping Articulated Pathways for Credit for Prior Learning	0.0	6.0	One-time funds added
Expand e-Transcript California	0.0	12.00	One-time funds added
Total	**$0.00**	**$95.00**	

[a] Table reflects total programmatic funding for the system, including amounts from prior years available for use in the years displayed.

CAPITAL OUTLAY INVESTMENTS ARE LIMITED

The Governor's May Revision continues to include only one project, providing $29.3 million **one-time** in capital outlay funding from Proposition 51, approved by voters in 2016, to continue with remodeling of the theater and McCloud Hall at College of the Siskiyous.

The Administration also commits to pursuing a statewide education facilities bond, with the exact amount of the bond and the split of funds to be determined through negotiations with the Legislature.

REDUCTION TO STATE OPERATIONS

The Chancellor's Office provides leadership and oversight to the system, administers dozens of systemwide programs, and manages day-to-day operations of the system. The office is involved in implementing several recent initiatives, including Guided Pathways, reforms to remedial education and transfer, and the Student Centered Funding Formula, as well as the statewide components of Vision 2030. In addition, the Chancellor's Office provides technical assistance to districts and conducts regional and statewide professional development activities. The May Revision applies an administrative reduction of 7.95% to all state agencies compared to the levels proposed in the Governor's Budget. This would result in about $25 million in non-Proposition 98 General Funds for the Chancellor's Office in 2024-25, down from the $27.1 million proposed in

January and lower than the $25.7 million provided in the 2023 Budget Act. The revised proposal keeps level the additional $12.2 million in special funds and reimbursements for Chancellor's Office operations.

Next Steps

Following release of the Governor's May Revision, the budget process moves very quickly. LAO typically publishes analyses of the May Revision within a few days. Budget subcommittees convene to review the proposals and often take action on both January and May proposals within about a week. Subcommittees report their recommendations to full committees, which in turn report to their respective houses. Not long after, a budget conference committee convenes to resolve differences between the two houses' versions of the budget by June 15, the state constitutional deadline for the Legislature to approve a budget. (See Appendix A for a more complete overview of the state budget process.)

For more information throughout the budget process, please visit the Budget News section of the Chancellor's Office website:

https://www.cccco.edu/About-Us/Chancellors-Office/Divisions/College-Finance-and-Facilities-Planning/Budget-News

Appendix A: Overview of the State Budget Process

The Governor and the Legislature adopt a new budget every year. The Constitution requires a balanced budget such that, if proposed expenditures exceed estimated revenues, the Governor is required to recommend changes in the budget. The fiscal year runs from July 1 through June 30.

Governor's Budget Proposal. The California Constitution requires that the Governor submit a budget to the Legislature by January 10 of each year. The Director of Finance, who functions as the chief financial advisor to the Governor, directs the preparation of the Governor's Budget. The state's basic approach is incremental budgeting, estimating first the costs of existing programs and then adjusting those program levels. By law, the chairs of the budget committees in each house of the Legislature—the Senate Budget and Fiscal Review Committee and the Assembly Budget Committee—introduce bills reflecting the Governor's proposal. These are called budget bills, and the two budget bills are identical at the time they are introduced.

Related Legislation. Some budget changes require that changes be made to existing law. In these cases, separate bills—called "trailer bills"—are considered with the budget. By law, all proposed statutory changes necessary to implement the Governor's Budget are due to the Legislature by February 1.

Legislative Analyses. Following the release of the Governor's Budget in January, the LAO begins its analyses of and recommendations on the Governor's proposals. These analyses, each specific to a budget area (such as higher education) or set of budget proposals (such as transportation proposals), typically are released beginning in mid-January and continuing into March.

Governor's Revised Proposals. Finance proposes adjustments to the January budget through "spring letters." Existing law requires Finance to submit most changes to the Legislature by April 1. Existing law requires Finance to submit, by May 14, revised revenue estimates, changes to Proposition 98, and changes to programs budgeted based on enrollment, caseload, and population. For that reason, the May Revision typically includes significant changes for the California Community Colleges budget. Following release of the May Revision, the LAO publishes additional analyses evaluating new and amended proposals.

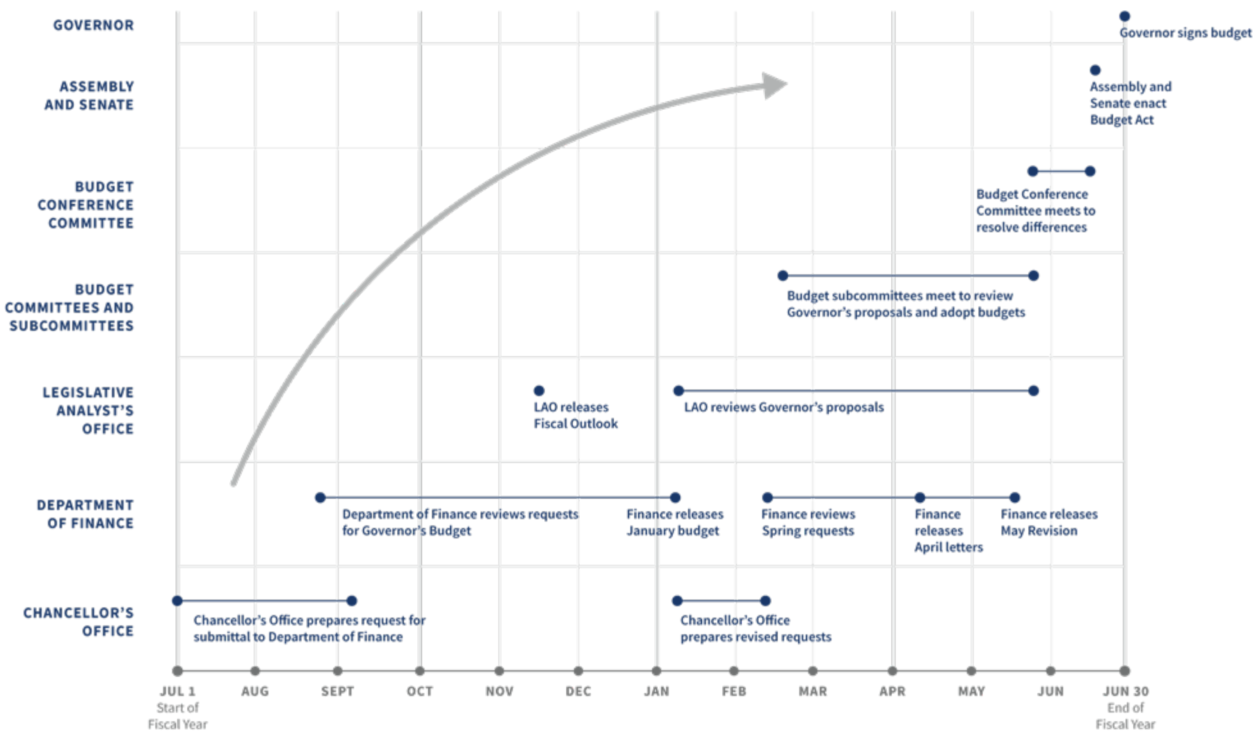
Legislative Review. The budget committees assign the items in the budget to subcommittees, which are organized by areas of state government (e.g., education). Many subcommittees rely heavily on the LAO analyses in developing their hearing agendas. For each January budget proposal, a subcommittee can adopt, reject, or modify the proposal. Any January proposals not acted on remain in the budget by default. May proposals, in contrast, must be acted on to be included in the budget. In addition to acting on the Governor's budget proposals, subcommittees also can add their own proposals to the budget.

When a subcommittee completes its actions, it reports its recommendations back to the full committee for approval. Through this process, each house develops a version of the budget that is a modification of the Governor's January budget proposal.

A budget conference committee is then appointed to resolve differences between the Senate and Assembly versions of the budget. The administration commonly engages with legislative leaders during this time to influence conference committee negotiations. The committee's report reflecting the budget deal between the houses is then sent to the full houses for approval.

Budget Enactment. Typically, the Governor has 12 days to sign or veto the budget bill. The Governor also has the authority to reduce or eliminate any appropriation included in the budget. Because the budget bill is an urgency measure, the bill takes effect as soon as it is signed.

SEQUENCE OF THE ANNUAL STATE BUDGET PROCESS



Appendix B: Board of Governors’ Budget and Legislative Request Compared to Governor’s May Revision

The system budget request considered needs over multiple years to achieve *Vision 2030* and Roadmap goals, and support students’ economic mobility.

Board of Governor’s Request	Governor’s May Revision Proposal
Ongoing Investments	
Foundational Resources. $500 million for base funding increase.	Provides $100 million for a COLA of 1.07% and $28 million for 0.5% enrollment growth.
Pathways and Student Supports. $60 million increase for DSPS; $40 million for Childcare Expansion Fund; $30 million for California Apprenticeship Initiative; $6 million to expand Military Articulation Platform. Extension of deadline for common course numbers from 2024 to 2027. Policy changes to provide equitable access to dual enrollment pathways.	See one-time funds for nursing program expansion below.
Support for Faculty. $50 million for faculty supports (office hours, professional development, curriculum development) and full-time faculty hiring.	Not included.
Technology and Data Sharing. $24.9 million to launch Phase 1 of Common ERP transition; $12 million for expanding use of eTranscript California (additional request after BOG request submitted).	See one-time funds for expanding use of eTranscript California below.
One-Time Investments	
Pathways and Student Supports.	Provides $60 million per year for five years to expand nursing program capacity.
Technology and Data Sharing. $310.1 million for Phase 1 of Common ERP transition (specifies plan to request another $214 million in 2027-28 for Phase 2).	Provides $12 million for expanding use of eTranscript California.
Vision 2030 Priorities (additional request after BOG request submitted). $5 million for a low-income workers demonstration project; $6 million for mapping pathways for Credit for Prior Learning (CPL); $10 million for a common data platform demonstration project.	Provides $5 million for Low-Income Workers Demonstration Project, $6 million for mapping pathways for CPL, and $12 million for Common Cloud Data Platform Demonstration Project.
Non-Proposition 98 Investments	
College Affordability and Supports. State-issued lease revenue bonds to support 19 approved and 5 new student housing projects. Policy changes for flexibility in the SSCG program for DSPS students, and study of structural barriers to residency.	Pursuing statewide lease revenue bond program for 13 approved projects (excludes 4 intersegmental projects to be funded by UC/CSU and 2 projects that were too far along for SLRB). No new projects approved.

Capacity to Support the System. General Fund support for a new Vice Chancellor of Information Security, Assistant Vice Chancellor of Workforce Development, and Director of Operations and Special Initiatives. Policy changes to streamline legislative reporting requirements.	Not included. Imposes 7.95% reduction in General Funds consistent with administrative reduction for all state agencies.
Workforce Education. Policy changes to better align EWD program with Strong Workforce, and to extend use of multi-criteria screening factors for limited enrollment healthcare program admissions.	Not mentioned.

Appendix C: Local Budgets and State Requirements

BUDGET PLANNING AND FORECASTING

Based on the information used in developing the May Revision, it would be reasonable for districts to plan their budgets using information shown in Table C-1 below.

Table C-1: Planning Factors for Proposed 2024-25 Budget

Factor	2022-23	2023-24	2024-25
Cost-of-living adjustment (COLA)	6.56%	8.1322%	1.07%
State Lottery funding per FTES[a]	$237	$249	TBD
Mandated Costs Block Grant funding per FTES	$32.68	$35.37	$35.75
RSI reimbursement per hour	$8.82	$8.82	$10.08
Financial aid administration per College Promise Grant	$0.91	$0.91	$0.91
Public Employees' Retirement System (CalPERS) employer contribution rates	25.37%	26.68%	27.05%
State Teachers' Retirement System (CalSTRS) employer contribution rates	19.10%	19.10%	19.10%

[a] 2023-24 estimate not available

STATE REQUIREMENTS FOR DISTRICT BUDGET APPROVAL

Existing law requires the governing board of each district to adopt an annual budget and financial report that shows proposed expenditures and estimated revenues by specified deadlines. Financial reporting deadlines are shown in Table C-2.

Table C-2: Financial Reporting Deadlines for 2024-25

Activity	Regulatory Due Date	Title 5 Section
Submit tentative budget to county officer.	July 1, 2024	58305(a)
Make available for public inspection a statement of prior year receipts and expenditures and current year expenses.	September 15, 2024	58300
Hold a public hearing on the proposed budget. Adopt a final budget.	September 15, 2024	58301
Complete the adopted annual financial and budget report and make public.	September 30, 2024	58305(d)
Submit an annual financial and budget report to Chancellor's Office.	October 10, 2024	58305(d)
Submit an audit report to the Chancellor's Office.	December 31, 2024	59106

If the governing board of any district fails to develop a budget as described, the chancellor may withhold any apportionment of state or local money to the district for the current fiscal year until the district makes a proper budget. These penalties are not imposed on a district if the chancellor determines that unique circumstances made it impossible for the district to comply with the provisions or if there were delays in the adoption of the annual state budget.

The total amount proposed for each major classification of expenditures is the maximum amount that may be expended for that classification for the fiscal year. Through a resolution, the governing board may make budget adjustments or authorize transfers from the reserve for contingencies to any classification (with a two-thirds vote) or between classifications (with a majority vote).

STATE REQUIREMENTS RELATED TO EXPENDITURES

State law includes two main requirements for districts' use of apportionments. The Chancellor's Office monitors district compliance with both requirements and annually updates the Board of Governors.

Full-Time Faculty Obligation

Education Code Section 87482.6 recognizes the goal of the Board of Governors that 75% of the hours of credit instruction in the California Community Colleges should be taught by full-time faculty. Each district has a baseline reflecting the number of full-time faculty in 1988-89. Each year, if the Board of Governors determines that adequate funds exist in the budget, districts are required to increase their base number of full-time faculty over the prior year in proportion to the amount of growth in funded credit full-time equivalent students. Funded credit FTES includes emergency conditions allowance protections, such as those approved for fires and for the COVID-19 pandemic. Districts with emergency conditions allowances approved per regulation will not have their full-time faculty obligation reduced for actual reported FTES declines while the protection is in place. The target number of faculty is called the Faculty Obligation Number (FON). An additional increase to the FON is required when the budget includes funds specifically for the purpose of increasing the full-time faculty percentage. The chancellor is required to assess a penalty for a district that does not meet its FON for a given year.

Fifty Percent Law

A second requirement related to budget levels is a statutory requirement that each district spend at least half of its Current Expense of Education each fiscal year for salaries and benefits of classroom instructors. Under existing law, a district may apply for an exemption under limited circumstances.

Appendix D: Districts’ Fiscal Health

The Board of Governors has established standards for sound fiscal management and a process to monitor and evaluate the financial health of community college districts. These standards are intended to be progressive, with the focus on prevention and assistance at the initial level and more direct intervention at the highest level.

Under that process, each district is required to regularly report to its governing board the status of the district's financial condition and to submit quarterly reports to the Chancellor’s Office three times a year in November, February, and May. Based on these reports, the Chancellor is required to determine if intervention is needed. Specifically, intervention may be necessary if a district's report indicates a high probability that, if trends continue unabated, the district will need an emergency apportionment from the state within three years or that the district is not in compliance with principles of sound fiscal management. The Chancellor’s Office’s intervention could include, but is not limited to, requiring the submission of additional reports, requiring the district to respond to specific concerns, or directing the district to prepare and adopt a plan for achieving fiscal stability. The Chancellor also could assign a fiscal monitor or special trustee.

The Chancellor’s Office believes that the evaluation of fiscal health should not be limited to times of crisis. Accordingly, the Fiscal Forward Portfolio has been implemented to support best practices in governance and continued accreditation, and to provide training and technical assistance to new chief executive officers and chief business officers through personalized desk sessions with Chancellor’s Office staff.

The Chancellor’s Office’s ongoing fiscal health analysis includes review of key financial indicators, results of annual audit reports, and other factors. A primary financial health indicator is the district’s unrestricted reserves balance. **The Chancellor’s Office recommends that districts adopt policies to maintain sufficient unrestricted reserves with a suggested minimum of two months of general fund operating expenditures or revenues, consistent with Budgeting Best Practices published by the Government Finance Officers Association.**

Districts are strongly encouraged to regularly assess risks to their fiscal health. The Fiscal Crisis and Management Assistance Team has developed a Fiscal Health Risk Analysis for districts as a management tool to evaluate key fiscal indicators that may help measure a district’s risk of insolvency in the current and two subsequent fiscal years.

Appendix E: Glossary

Appropriation: Money set apart by legislation for a specific use, with limits in the amount and period during which the expenditure is to be recognized.

Augmentation: An increase to a previously authorized appropriation or allotment.

Bond Funds: Funds used to account for the receipt and disbursement of non-self-liquidating general obligation bond proceeds.

Budget: A plan of operation expressed in terms of financial or other resource requirements for a specific period.

Budget Act (BA): An annual statute authorizing state departments to expend appropriated funds for the purposes stated in the Governor's Budget, amended by the Legislature, and signed by the Governor.

Budget Year (BY): The next state fiscal year, beginning July 1 and ending June 30, for which the Governor's Budget is submitted (i.e., the year following the current fiscal year).

Capital Outlay: Expenditures that result in acquisition or addition of land, planning and construction of new buildings, expansion or modification of existing buildings, or purchase of equipment related to such construction, or a combination of these.

Cost of Living Adjustment (COLA): Increases provided in state-funded programs intended to offset the effects of inflation.

Current Year (CY): The present state fiscal year, beginning July 1 and ending June 30 (in contrast to past or future periods).

Department of Finance (DOF or Finance): A state fiscal control agency. The Director of Finance is appointed by the Governor and serves as the chief fiscal policy advisor.

Education Protection Account (EPA): The Education Protection Account (EPA) was created in November 2012 by Proposition 30, the Schools and Local Public Safety Protection Act of 2012, and amended by Proposition 55 in November 2016. Of the funds in the account, 89 percent is provided to K-12 education and 11 percent to community colleges. These funds are set to expire on December 31, 2030.

Expenditure: Amount of an appropriation spent or used.

Fiscal Year (FY): A 12-month budgeting and accounting period. In California state government, the fiscal year begins July 1 and ends the following June 30.

Fund: A legal budgeting and accounting entity that provides for the segregation of moneys or other resources in the State Treasury for obligations in accordance with specific restrictions or limitations.

General Fund (GF): The predominant fund for financing state operations; used to account for revenues that are not specifically designated by any other fund.

Governor's Budget: The publication the Governor presents to the Legislature by January 10 each year, which includes recommended expenditures and estimates of revenues.

Lease Revenue Bond: Lease-revenue bonds are used in the state's capital outlay program to finance projects. The revenue stream paying the debt service on the bond is created from lease payments made by the occupying entity to the governmental financing entity which constructs the facility or causes it to be constructed.

Legislative Analyst's Office (LAO): A nonpartisan office that provides fiscal and policy advice to the Legislature.

Local Assistance: Expenditures made for the support of local government or other locally administered activities.

May Revision: An update to the Governor's Budget presented by Finance to the Legislature by May 14 of each year.

Past Year or Prior Year (PY): The most recently completed state fiscal year, beginning July 1 and ending June 30.

Proposition 98: A section of the California Constitution that, among other provisions, specifies a minimum funding guarantee for schools and community colleges. California Community Colleges typically receive 10.93% of the funds.

Related and Supplemental Instruction (RSI): An organized and systematic form of instruction designed to provide apprentices with knowledge including the theoretical and technical subjects related and supplemental to the skill(s) involved.

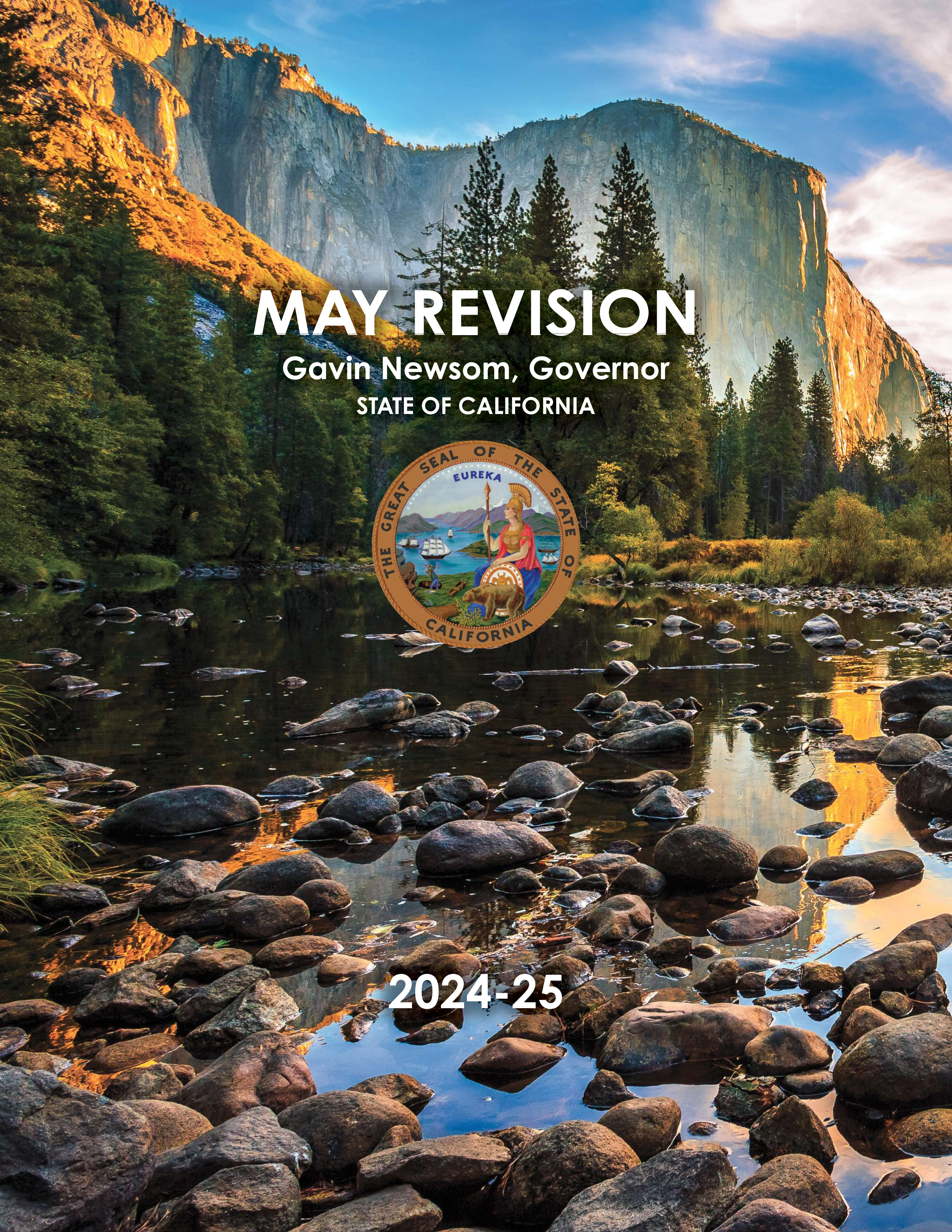
Reserve: An amount set aside in a fund to provide for an unanticipated decline in revenue or increase in expenditures.

Revenue: Government income, generally derived from taxes, licenses and fees, and investment earnings, which are appropriated for the payment of public expenses.

State Operations: Expenditures for the support of state government.

Statute: A law enacted by the Legislature.

Workload Budget: The level of funding needed to support the current cost of already-authorized services.



MAY REVISION

Gavin Newsom, Governor

STATE OF CALIFORNIA

2024-25

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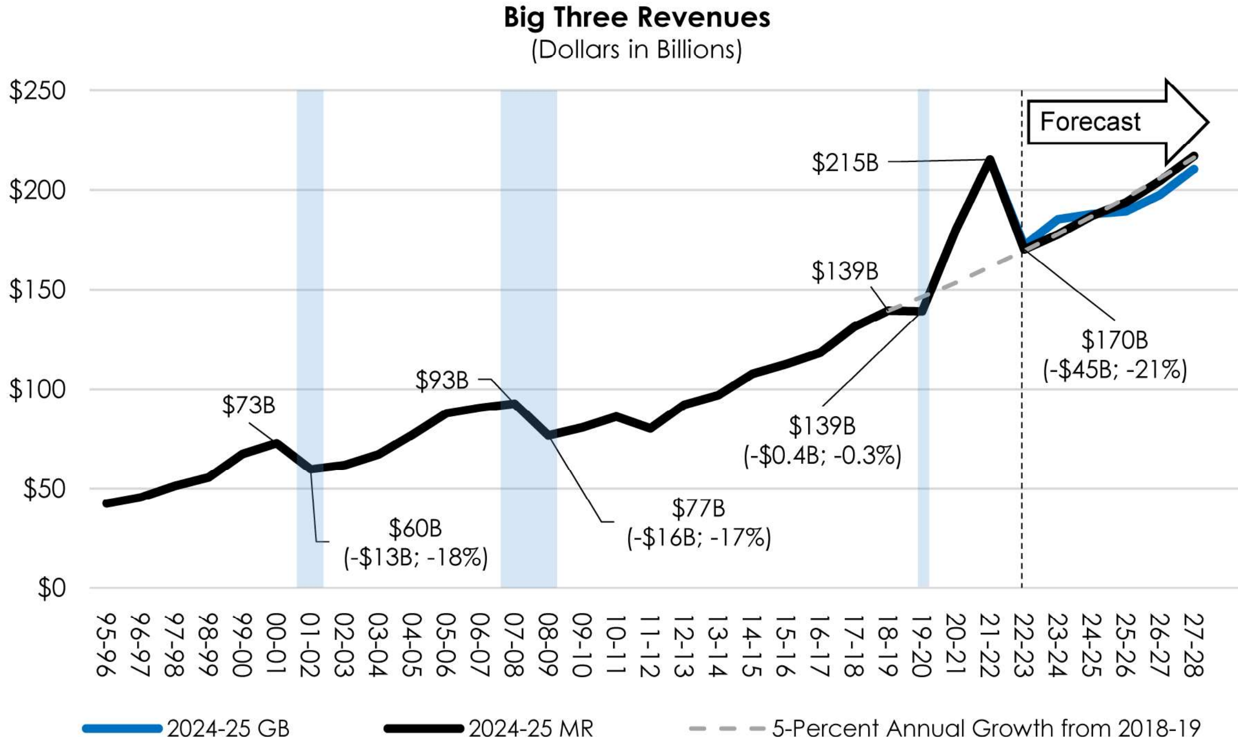
INTRODUCTION

This year's May Revision puts the state on a long-term, fiscally responsible path that protects vital programs assisting millions of Californians. Although the economy remains strong and revenue volatility has stabilized after the tumultuous COVID-19 Pandemic, the May Revision addresses anticipated shortfalls in both the 2024-25 and 2025-26 fiscal years. This multiyear focus presents a balanced approach that results in positive operating reserves in the 2024-25 and 2025-26 fiscal years—transforming a cumulative two-year deficit into an operating reserve surplus. To achieve this outcome, the May Revision includes significant spending cuts to government operations, reductions to programs and pauses of new investments. Despite these necessary cuts, reductions, and pauses, the May Revision maintains current service levels for key health care, social services and other critical programs.

Emerging from the pandemic, the state's economy has been resilient but has behaved in ways that have defied traditional forecasts and historical precedent. During this time California has experienced significant revenue volatility—seeing unprecedented revenue growth that was quickly followed by a sharp and deep correction back toward historical trends. This volatility resulted in the 2021 and 2022 Budget Acts reflecting higher growth assumptions, which created a misalignment between expenditures and revenues in the last two fiscal years that will continue unless corrective action is taken. Despite this volatility and the resulting need to take corrective actions, revenues in the coming fiscal year are forecasted to be higher than pre-pandemic levels in 2018-19 and reflect a level consistent with a more typical annual growth pattern of five percent (see the Big Three Revenue—personal income, corporation, and sales tax—figure below).



Projected revenue figures exclude the impact of tax policy proposals and solutions.
Shaded bars indicate previous U.S. recessions.
Source: California Department of Finance, 2024-25 May Revision Forecast.

At last year's May Revision, significant uncertainty clouded the state's revenue forecast, driven by the unprecedented Internal Revenue Service (IRS) tax filing and payment postponement—affecting 99 percent of California taxpayers—that delayed critical cash receipts for more than half a year. With the revenue picture now clearer for the 2022 and 2023 tax years, actions must be taken to bring the budget's expenditures and revenues into alignment—an essential step so programs and services that Californians rely upon can be protected. Without action, these programs and services will be at risk of more consequential reductions in the coming years.

In response, the May Revision includes budgetary solutions that address the near-term budget shortfall for 2024-25 and result in a positive operating reserve in 2025-26. Without question, difficult decisions are required to accomplish this. However, these decisions are necessary to stabilize California's financial plan. Without them, significant shortfalls are projected to persist.

HOW WE GOT HERE

Following the stock market run-up through the end of 2021, asset prices dropped in 2022, with the S&P 500 declining by 19 percent and the NASDAQ Composite Index—concentrated in stocks in technology companies that are a California mainstay—declining by 33 percent. As a result, the state's Big Three General Fund revenue sources—personal income, sales, and corporation taxes—declined by 21 percent in 2022-23 after increasing by a remarkable 55 percent from 2019-20 to 2021-22. While the stock market rebounded and recovered nearly all of its losses by the end of 2023, cash receipts for the year remained weak, due in part to increased capital loss carryovers originating from the asset market declines in 2022. New tax data for 2022 show capital loss carryovers grew by 62 percent in 2022, exceeding the 58 percent increase in 2008 during the Great Recession.

Due to the revenue spike from 2019-20 to 2021-22, the Budget Acts of 2021 and 2022 were based on forecasts that projected substantially greater revenues in the last two fiscal years than occurred.

To illustrate:

- The 2022 Budget Act projected that Big Three revenues would be $210 billion in 2022-23 and $220.9 billion in 2023-24.
- As of the May Revision forecast, 2022-23 revenues, excluding solutions and policy proposals, are now estimated at $170.1 billion and 2023-24 revenues are at $177.7 billion.
- This is a difference of $83.1 billion between the 2022 Budget Act projection for the 2022-23 and 2023-24 fiscal years and what has materialized based on the latest projections.

Big Three Revenue Forecast Comparison
2022 Budget Act vs. 2024 May Revision
(Dollars in Billions)

Fiscal Year	2022-23	2023-24	2024-25	2025-26
2022 Budget Act	$210.0	$220.9	$230.6	$232.2
2024 May Revision	$170.1	$177.7	$187.0	$193.8
Difference	-$39.9	-$43.2	-$43.6	-$38.4

The total difference across the four fiscal years is a negative $165.1 billion.

THE BUDGET PROBLEM

The 2023 Budget Act addressed a budget shortfall of approximately $32 billion. As previously noted, significant uncertainty surrounded the revenue forecast due to the IRS tax filing and payment delay. Once additional tax receipts for 2022 were received in late November 2023, it was clear that 2022 revenues were weaker than projected when the 2023 Budget Act was adopted. As a result, the Governor's Budget projected an additional budget shortfall of $37.9 billion.

Since then, 2023 tax year cash receipts have been weaker than expected. In addition, inflation has been slower to cool, defying earlier expectations. As a result, interest rates have remained higher to longer than expected. Compared to January's revenue forecast, the May Revision revenue forecast reflects a decrease of $10.5 billion in the Big Three revenues, excluding solutions and policy proposals, through the 2024-25 fiscal year—with personal income tax lower by $2.4 billion, corporation tax lower by $5.8 billion, and sales tax lower by $2.3 billion.

The May Revision estimates that the budget shortfall has grown by approximately $7 billion. Combined with the Governor's Budget, the budget shortfall for the 2024-25 fiscal year is approximately $44.9 billion. However, after accounting for the early action budget package that included $17.3 billion of solutions, the remaining budget problem is approximately $27.6 billion.

Budget Problem at the May Revision

Governor's Budget	$37.9 billion
Shortfall Since Governor's Budget	$7.0 billion
Early Action Budget Package	-$17.3 billion
Remaining Budget Problem	**$27.6 billion**

The Governor's Budget reflected a negative operating reserve balance in the 2025-26 fiscal year of $33.1 billion. Such levels of negative reserves in budget out-years are not manageable and put state investments at further risk, particularly ongoing programs and services. The May Revision addresses the 2025-26 shortfall and reflects positive operating reserve balances in both the 2024-25 and 2025-26 fiscal years.

EARLY ACTION BUDGET PACKAGE

Recognizing the importance of addressing the shortfall ahead of schedule, the Legislature passed an early action budget package in April that reduced the size of the budget shortfall by approximately $17.3 billion (Chapter 9, Statutes of 2024 (AB 106)). This package was comprised primarily of solutions included in the Governor's Budget, and also accounted for the use of $12.2 billion from the Budget Stabilization Account (BSA).

BUDGET RESERVES AND SOLUTIONS

USE OF RESERVES

The scope of the current shortfall presents the conditions for which the BSA was designed—mitigating volatility in revenues, specifically from fluctuations in capital gains.

To help address this volatility, capital gains tax revenues that exceed eight percent of total general fund revenues are deposited into the BSA. The BSA is structured to capture revenue from capital gains during market upswings to mitigate the impact of market—and corresponding revenue—downswings on the state budget.

California experienced this type of swing in revenue from capital gains in 2021 when capital gains realizations spiked to an all-time high of $349 billion. Conversely, the May Revision forecast projects that capital gains realizations fell to approximately $156 billion in 2022 and $137 billion in 2023.

While challenging, the current shortfall is more manageable because of the state's foresight in building the combined budgetary reserves to a record level in 2023. Withdrawals from the BSA will help the state maintain fiscal stability, continue its ongoing efforts to address priority issues such as homelessness and combatting the effects of climate change, and avoid more harmful cuts in programs that are essential to the well-being of Californians throughout the state.

The May Revision maintains the Governor's Budget withdrawal of approximately $12.2 billion from the BSA, as well as $900 million from the Safety Net Reserve. However, the May Revision spreads the use of the BSA withdrawal over two fiscal years, utilizing $3.3 billion in the 2024-25 fiscal year and $8.9 billion in the 2025-26 fiscal year. This action will assist in balancing the budget through the 2025-26 fiscal year.

In addition, the May Revision includes withdrawals from the Public School System Stabilization Account of approximately $8.4 billion to maintain predictable support for local educational agencies and community college districts.

By spreading the use of reserves over two fiscal years, total budget reserves in the coming fiscal year will remain substantial at $22.8 billion. This includes $19.4 billion in the BSA and $3.4 billion in the Special Fund for Economic Uncertainties.

SOLUTIONS

In January, the Governor's Budget proposed to close the estimated $37.9 billion shortfall through the following mix of balanced solutions:

Governor's Budget 2024-25 Solutions

Category	Amount
Reserves	$13.1 billion
Reductions	$8.5 billion
Revenue/Borrowing	$5.7 billion
Delays	$5.1 billion
Fund Shifts	$3.4 billion
Deferrals	$2.1 billion
Total	**$37.9 billion**

As mentioned above, the early action budget package addressed $17.3 billion of the budget problem. Accounting for the increased budget problem of $7 billion and erosions of Governor's Budget solutions of $1.2 billion, the May Revision includes $8.2 billion of additional solutions. The following is a breakdown of solutions by category that net to address the $8.2 billion incremental increase in the 2024-25 fiscal year budget problem at the May Revision.

Additional May Revision 2024-25
Solutions and Adjustments

Category	Amount
Reserves*	- $8.9 billion
Reductions	$10.7 billion
Revenue/Borrowing	$2.0 billion
Delays	$520 million
Fund Shifts	$3.9 billion
Total	**$8.2 billion**

*Reflects the spreading of the proposed BSA withdrawal in the Governor's Budget of $12.2 billion over two fiscal years: $3.3 billion in 2024-25 and $8.9 billion in 2025-26.

The May Revision also ensures that there is a positive operating reserve in the 2025-26 fiscal year. The solutions to address the 2025-26 fiscal year budget problem total $28.4 billion and are listed by category below:

May Revision 2025-26
Solutions and Adjustments

Category	Amount
Reserves	$8.9 billion
Reductions	$14.6 billion
Revenue/Borrowing	$7.4 billion
Pauses/Delays*	-$1.1 billion
Fund Shifts	$743 million
Deferrals*	- $2.1 billion
Total	**$28.4 billion**

*Reflects delays and deferrals proposed in the Governor's Budget.

Some of the new solutions at the May Revision are:

- **Reductions.** The May Revision reduces funding for various items in addition to the reductions made in the Governor's Budget. Significant solutions in this category include:
  - **Middle Class Scholarship Program**—Reduce $510 million ongoing General Fund support for the Middle Class Scholarship program. Combined with a technical adjustment, $100 million ongoing support for this program would remain.
  - **California Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program**—Pull back a planned 2025-26 General Fund investment of $550 million that would have supported the California Preschool, Transitional Kindergarten, and Full-Day Kindergarten Program. Such an investment could be considered for inclusion in education facilities bond proposals being contemplated by the Legislature.
  - **Children and Youth Behavioral Health Initiative**—A reduction of one-time $72.3 million General Fund in 2023-24, $348.6 million General Fund in 2024-25, and $5 million General Fund in 2025-26 for school-linked health partnerships and capacity grants for higher education institutions, behavioral health services and supports platform, evidence-based and community-defined grants, public education and change campaign, and youth suicide reporting and crisis response pilot.
  - **California Department of Corrections and Rehabilitation Housing Unit Deactivations**—An ongoing reduction of $80.6 million General Fund to reflect the deactivation of 46 housing units across 13 prisons, totaling approximately 4,600 beds.
  - **Ongoing Reductions to State Operations**—A reduction to state operations by approximately 7.95 percent beginning in 2024-25 to nearly all department budgets. The planned reduction involves all categories, including personnel, operating costs, and contracting. The Department of Finance will work with agencies and departments in the fall on the appropriate budget reductions.
- **Revenue/Internal Borrowing.** The May Revision includes additional and adjusted support from revenue sources and borrows internally from special funds. Significant solutions in this category include:
  - **Net Operating Loss (NOL) Suspension and Limit Credit to $5 Million**—The Governor's Budget NOL suspension proposal is modified to begin in 2025-26 and include an opportunity to trigger the suspension off if revenues improve, resulting

in $900 million revenue gain ($558 million net of Proposition 98) in 2024-25 and $5.5 billion ($3.4 billion net of Proposition 98) in 2025-26.

- **Additional Managed Care Organization (MCO) Tax (Medicare Revenue)**—Increase the MCO Tax to achieve additional net state benefit of $689.9 million in 2024-25, $950 million in 2025-26, and $1.3 billion in 2026-27 by including health plan Medicare revenue in the total revenue limit calculation, which increases the allowable size of the tax.

- **Delays and Pauses.** The May Revision minimizes the use of delays to avoid both increased future obligations and potential shortfalls, and some delays proposed in the Governor's Budget have been changed to reductions. There are limited exceptions in which funding is spread over a multiyear period. These include:
  - **Broadband Last Mile**—Delay $200 million from 2025-26 to 2027-28.
  - **Child Care Slot Expansion Pause at Current Level**—Approximately,119,000 slots have been added; a pause at the current level until fiscal conditions allow for resuming the expansion will result in a revenue gain of $489 million in 2024-25 and $951 million in 2025-26.
- **Fund Shifts.** The May Revision shifts certain expenditures from the General Fund to other funds in addition to those shifted in the Governor's Budget. Significant solutions in this category include:
  - **Capitol Annex Projects**—Shift $450 million in 2024-25 and $250 million in 2025-26 from cash to bonds.
  - **Cap and Trade Fund Shifts**—A number of General Fund commitments are shifted into the Greenhouse Gas Reduction Fund, with a focus on equity programs, priorities to help meet climate goals, and programs that support greenhouse gas reductions for a total shift of $1.7 billion in 2024-25.

2022 TRIGGER

The 2022 Budget Act included a trigger that anticipated expenditures for certain programs would be included in the 2024 Budget Act if the Department of Finance first determined that estimated General Fund resources reflected in the 2024 May Revision could support such ongoing increases over the multiyear forecast. Given the negative multiyear projections, the following investments that were part of this trigger are not included in the May Revision:

- Union Membership Dues Tax Credit
- Medi-Cal Share of Cost Reform
- Continuous Medi-Cal Coverage for Children Aged 0 through 4
- Child Support Pass-Through to Currently Assisted CalWORKs Families
- California State Student Aid Commission – Cal Grant Reform Act
- California Community College Cal Grant Expansion Program
- Victim Compensation Program

PRIOR BUDGET SAFEGUARDS WORKING AS PLANNED

The May Revision fortifies California's fiscal foundation by more closely aligning projected expenditures with the state's revenue forecast. While difficult reductions and pullbacks of funding are required to accomplish this, they are proposed in a manner intended to protect nearly all of the state's core programs and services.

Specifically, the May Revision relies upon the following budget resiliency measures and other tools to provide for a balanced budget in 2024-25 and 2025-26:

- **Budget Stabilization Account**—Prudent use of the BSA to stabilize the budget during a period of revenue decline.
- **Reductions of One-time Spending**—While the budget shortfall necessitates some ongoing solutions, the May Revision maximizes the pullback of one-time spending, which prevents far deeper reductions to ongoing programs.
- **Trigger Mechanism**—By including a trigger mechanism in the 2022 Budget Act instead of automatic spending increases on new programs, state expenditures did not grow further in the 2024-25 fiscal year and beyond.

Difficult decisions regarding spending reductions are necessary to create a path for long-term fiscal sustainability. Making these decisions now will significantly reduce the risk of more difficult decisions in the months and years ahead that could have substantial effects on core state programs and services.

SAVING MORE DURING FUTURE UPWARD SWINGS IN REVENUE

As the Governor's Budget stated in January, the Administration and the Legislature should explore legislation to allow the state to save more during economic upswings, enhancing the state's ability to protect vital programs and services during future budget downturns. This includes amendments to Proposition 2 (2014) to allow increased deposits into the BSA.

The May Revision proposes additional legislation that would require the state to set aside a portion of anticipated surplus funds to be allocated in a subsequent budget act. This will ensure that the state does not commit certain amounts of future anticipated revenues until such revenues have been realized. This proposal does not replace the need to explore changes to Proposition 2; rather, it provides an additional tool to manage future revenue volatility.

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ADDRESSING THE BUDGET AND OPERATING DEFICIT PROBLEM

To address the projected budget shortfall and multiyear operating deficits, the Budget proposes one-time and ongoing General Fund solutions to achieve a balanced budget in both the 2024-25 and 2025-26 fiscal years and significantly reduce the projected operating deficit over the multiyear forecast. These include:

EDUCATION

- **Learning Aligned Employment Program**—Reducing $485 million one-time, which reflects the balance of unspent one-time Learning-Aligned Employment Program resources.
- **Golden State Teacher Grant Program**—Reducing $60.2 million one-time support for the Golden State Teacher Grant Program. Combined with a technical adjustment, $50 million one-time support for this program would remain.
- **Middle Class Scholarship Program**—Reducing $510 million ongoing support for the Middle Class Scholarship program. Combined with a technical adjustment, $100 million ongoing support for this program would remain.
- **California Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program**—Reducing a planned 2025-26 investment of $550 million that would have supported the California Preschool, Transitional Kindergarten, and Full-Day

Kindergarten Program. Such an investment could be considered for inclusion in education facilities bond proposals being contemplated by the Legislature.

- **School Facilities Aid Program**—Eliminating the remaining $375 million one-time in planned support for the School Facilities Aid Program. The Early Action package previously reduced a planned investment of $875 million one-time General Fund by $500 million one-time General Fund.
- **Preschool Inclusivity**—Eliminating the planned General Fund investments of $47.9 million in 2025-26 and $97.9 million ongoing starting in 2026-27 that would have supported California State Preschool Program adjustment factor costs for State Preschool to serve at least 10 percent of students with disabilities by 2026-27. Providers would continue to be required to serve at least 5 percent of students with disabilities.

HEALTH AND HUMAN SERVICES

- **Managed Care Organization (MCO) Tax**—Reducing $6.7 billion over multiple years from the Medi-Cal provider rate increases planned for January 1, 2025, as well as Graduate Medical Education and Medi-Cal labor workforce. The May Revision proposes an amendment to the MCO Tax to include health plan Medicare revenue in the total revenue limit calculation, which increases the allowable size of the tax resulting in an additional net state benefit of $689.9 million in 2024-25, $950 million in 2025-26, and $1.3 billion in 2026-27. Overall, the May Revision includes an additional $9.7 billion in MCO Tax funds over multiple years to support the Medi-Cal program.
- **Healthcare Workforce Reduction**—Eliminating $300.9 million in 2023-24, $302.7 million in 2024-25, $216 million in 2025-26, $19 million in 2026-27, and $16 million in 2027-28 for various healthcare workforce initiatives including community health workers, nursing, social work, Song-Brown residencies, Health Professions Career Opportunity Program, and California Medicine Scholars Program. The May Revision also eliminates $189.4 million Mental Health Services Fund for programs proposed to be delayed to 2025-26 at Governor's Budget.
- **Children and Youth Behavioral Health Initiative**—Reducing $72.3 million one-time in 2023-24, $348.6 million in 2024-25, and $5 million in 2025-26 for school-linked health partnerships and capacity grants for higher education institutions, behavioral health services and supports platform, evidence-based and community-defined grants, public education and change campaign, and youth suicide reporting and crisis response pilot.

- **Behavioral Health Continuum Infrastructure Program**—Eliminating $450.7 million one-time from the last round of the Behavioral Health Continuum Infrastructure Program, while maintaining $30 million one-time General Fund in 2024-25.
- **Behavioral Health Bridge Housing Program**—Reducing $132.5 million in 2024-25 and $207.5 million in 2025-26 for the Behavioral Health Bridge Housing Program, while maintaining $132.5 million General Fund in 2024-25 and $117.5 million ($90 million Mental Health Services Fund and $27.5 million General Fund) in 2025-26.
- **Equity and Practice Transformation Payments to Providers**—Eliminating $280 million one-time over multiple years for grants to Medi-Cal providers for quality, health equity, and primary care infrastructure. The May Revision maintains $70 million General Fund included in the 2022 Budget Act.
- **Elimination of Public Health Funding**—Eliminating $52.5 million in 2023-24 and $300 million ongoing for state and local public health.
- **Foster Care Permanent Rate Structure**—Including statutory language that would make the proposed foster care rate structure subject to a trigger-on, based on the availability of General Fund in spring 2026.
- **CalWORKs Home Visiting Program**—Reducing $47.1 million ongoing for the CalWORKs Home Visiting Program.
- **CalWORKs Mental Health and Substance Abuse Services**—Reducing $126.6 million ongoing for the CalWORKs Mental Health and Substance Abuse Services.
- **Child Care Slot Expansion Pause at Current Level**—Approximately,119,000 slots have been added; a pause at the current level until fiscal conditions allow for resuming the expansion will result in a revenue gain of $489 million in 2024-25 and $951 million in 2025-26.
- **In-Home Supportive Services for Undocumented Individuals**—Reducing $94.7 million ongoing by eliminating the In-Home Supportive Services (IHSS) undocumented expansion coverage for all ages.
- **California Food Assistance Program Expansion**—Delaying for two years the California Food Assistance Program expansion automation to begin in 2026-27 with benefits beginning in 2027-28.

CORRECTIONS, PUBLIC SAFETY AND GENERAL GOVERNMENT

- **Trial Court Operations: Ongoing General Fund Reduction**—Reducing $97 million ongoing consistent with the statewide ongoing reduction to state operations.
- **California Competes Grant Program**—Eliminating $60 million one-time provided in the Governor's Budget to extend the California Competes Grant program for an additional year in 2024-25.
- **Department of Justice Law Enforcement and Legal Services Reductions**—Reducing $10 million ongoing for the Division of Law Enforcement and $5 million ongoing for the Division of Legal Services.
- **California Department of Corrections and Rehabilitation**
    - **Housing Unit Deactivations**—Reducing $80.6 million ongoing to reflect the deactivation of 46 housing units across 13 prisons, totaling approximately 4,600 beds.
    - **Peace Officer Training Reduction (Block Training and Northern California Women's Training Facility)**—Reducing $8.5 million in 2023-24, $13.8 million in 2024-25, and $22.6 million ongoing to reflect a reduction in annual training for correctional officers from 48 hours to 40 hours, and a discontinuation of the use of the California Reality Based Training Center.
    - **Los Angeles County Fire Camp Contract**—Reducing $2.4 million in 2024-25 and $4.8 million in 2025-26 and ongoing to reflect the proposed cancellation of the fire suppression services contract with Los Angeles County.
    - **Level IV Visiting Reduction**—Reducing $4.1 million ongoing associated with the reduction of in-person visiting from three days to two days at Level IV institutions.
    - **Return Data Collection Analysis and Outcomes Funding**—Reducing $6 million one-time added in the 2022 Budget Act to conduct a study on parole data and outcomes.
- **Board of State and Community Corrections**
    - **Medication Assisted Treatment Grants**—Reducing $10.5 million in 2023-24 for competitive grants to counties to use for various purposes relating to the treatment of substance use disorders and the provision of medication-assisted treatment.

- **Post Release Community Supervision**—Reducing $4.4 million one-time in 2024-25 to eliminate funding provided to county probation departments for the temporary increase in the number of offenders released from prison to Post Release Community Supervision pursuant to Proposition 57, the Public Safety and Rehabilitation Act of 2016.
- **Adult Reentry Grant**—Reducing $54.1 million in 2023-24 and $57 million one-time in outyears that was proposed to be delayed in the Governor's Budget. The Governor's Budget included an additional reduction of $7.8 million in 2022-23. The Adult Reentry Grant provides competitive funds to community-based organizations to deliver reentry services to assist formerly incarcerated individuals reentering communities.

RESOURCES, ENVIRONMENT, AND CAPITAL OUTLAY

- **Capitol Annex Project**—Shifting $700 million over two years from the State Project Infrastructure Fund to the General Fund and implementing statutory changes that would support the construction of the Capitol Annex Projects with lease revenue bond financing.
- **Cap and Trade Fund Shifts**—Shifting $1.7 billion in 2024-25 from the General Fund to the Greenhouse Gas Reduction Fund for various climate programs. Over the next five years, the May Revision includes shifting $3.6 billion from the General Fund to the Greenhouse Gas Reduction Fund, including transit programs, clean energy programs, zero-emission vehicle programs, and nature-based solutions programs.
- **Outdoor Equity Grants**—Reducing $50 million one-time in 2023-24 for outdoor environmental education and access programs administered through the Outdoor Equity Grants Program under Chapter 675, Statutes of 2019 (AB 209). Approximately $40 million has already been committed for this purpose.
- **Vulnerable Community Toxic Clean-up**—Reducing $136 million in 2023-24 ($268.5 million over four years) for the Department of Toxic Substances Control's Cleanup in Vulnerable Communities Initiative Program. The May Revision maintains $65 million ($107.5 million over three years) for this program through a fund shift to the Greenhouse Gas Reduction Fund.
- **Habitat Conservation Fund**—Reverting $45 million one-time in 2023-24 and reducing $20 million ongoing starting in 2024-25 by accelerating the sunset date for the Habitat Conservation Fund, which is currently scheduled to sunset in 2030.

- **Water Storage**—Reducing $500 million one-time in 2025-26 to support water storage facilities. Proposition 1 of 2014 dedicated $2.7 billion for investments in water storage projects, and significant funding is still available for this purpose.
- **Air Pollution Control Fund Loan**—Providing a budgetary loan of $300 million from the fund balance of the Air Pollution Control Fund to the General Fund.

ENERGY, TRANSPORTATION, HOUSING, LABOR AND LOCAL GOVERNMENT

- **Active Transportation Program**—Reducing $300 million in 2025-26 and $99 million in 2026-27 for funds appropriated for active transportation grants.
- **Transit**—Shifting $555.1 million from General Fund to the Greenhouse Gas Reduction Fund above what was proposed in the Governor's Budget, for a total of $1.3 billion in proposed fund shifts for transit. These fund shifts are not expected to have any program impact and the May Revision maintains the Formula Transit and Intercity Rail Capital Program ($4 billion) and the Zero Emission Transit Capital Program ($1.1 billion) funding levels. The May Revision also reduces $148 million not used for awarded projects from the Competitive Transit and Intercity Rail Capital Program and maintains 96 percent of the Competitive Transit and Intercity Rail Capital Program ($3.5 billion of the originally planned $3.65 billion).
- **Clean Energy Reliable Investment Plan (CERIP)**—Shifting the remaining $900 million for this program to Greenhouse Gas Reduction Fund over multiple years, beginning in 2025-26.
- **California Jobs First**—Reducing $150 million ($50 million annually from 2024-25 through 2026-27) for the California Jobs First Program, an inter-agency partnership to support resilient, equitable, and sustainable regional economies.
- **Women In Construction**—Reducing $10 million on an ongoing basis, in addition to the $5 million ongoing reduction proposed at Governor’s Budget, which would result in the elimination of the program.
- **Homeless Housing, Assistance and Prevention (HHAP) Round 5 Grant Program**—Reducing $260 million one-time in 2025-26 for HHAP Round 5 supplemental grant funding.
- **Multifamily Housing Program**—Eliminating the remaining $75 million in 2023-24 for this program, in addition to the $250 million proposed at Governor’s Budget.

- **Adaptive Reuse Program**—Reducing $127.5 million in 2023-24, which will eliminate the program.
- **Foreclosure Intervention Housing Preservation Program**—Eliminating the remaining $236.5 million in 2023-24 for this program, in addition to the $237.5 million proposed at Governor's Budget, which would result in the elimination of the program.

STATE ADMINISTRATION, EMPLOYEE COMPENSATION AND OTHER STATEWIDE ADJUSTMENTS

- **Middle Mile Broadband Initiative (MMBI)**—Modifying the MMBI Budget Change Proposal requesting $250 million in 2024-25, and $1.25 billion in 2025-26, and instead adds provisional language to allow the Director of Finance to augment MMBI's budget by up to $1.5 billion upon notification to the Joint Legislative Budget Committee. This is in addition to the $3.9 billion in funding already budgeted for the project.
- **Vacant Positions Funding Reduction and Elimination of Positions**—Chapter 9, Statutes of 2024 (AB 106) adopted the Governor's Budget proposal to reduce departmental budgets in 2024-25 by $1.5 billion ($762.5 million General Fund) for savings associated with vacant positions. The May Revision proposes making the reduction permanent. The Department of Finance will work with agencies and departments in the fall on the appropriate budget reductions starting in 2024-25 and will eliminate approximately 10,000 positions starting in 2025-26 and ongoing.
- **Ongoing Reductions to State Operations**—Proposing an across-the-board reduction to state operations by approximately 7.95 percent beginning in 2024-25 to nearly all department budgets. The planned reduction involves all categories, including personnel, operating costs, and contracting. The Department of Finance will work with agencies and departments in the fall on the appropriate budget reductions.
- **Net Operating Losses (NOL) Suspension and Limitation of Credits to $5 million**—Suspending the carryover NOL tax deduction for businesses with California income over $1 million and limiting business credit usage to $5 million for tax years 2025, 2026, and 2027, with a trigger to restore if sufficient revenues are determined to be available in the 2025-26 May Revision. The credit limitation does not apply to the Low-Income Housing and Pass-through Entity Elective tax credits. Both the NOLs and credits carryover periods would be extended by three years. This solution replaces the Governor's Budget proposal to limit NOLs to 80 percent of taxable income.

- **Budget Stabilization Account (BSA)**—Shifting $8.9 billion of the $12.2 billion proposed BSA withdrawal from fiscal year 2024-25 to 2025-26. The Governor's Budget proposed withdrawing $12.2 billion from the BSA in fiscal year 2024-25. The May Revision proposes to withdraw $3.3 billion from the BSA in 2024-25 and $8.9 billion in 2025-26.

SUMMARY CHARTS

This section provides various statewide budget charts and tables.

2024-25 May Revision
General Fund Budget Summary
(Dollars in Millions)

	2023-24	2024-25
Prior Year Balance	$46,260	$9,726
Revenues and Transfers	$189,354	$205,249
Total Resources Available	**$235,614**	**$214,975**
Non-Proposition 98 Expenditures	$153,450	$124,368
Proposition 98 Expenditures	$72,438	$76,606
Total Expenditures	**$225,888**	**$200,974**
Fund Balance	**$9,726**	**$14,001**
Reserve for Liquidation of Encumbrances	$10,569	$10,569
Special Fund for Economic Uncertainties	-$843	$3,432
Public School System Stabilization Account	**$2,590**	**-**
Safety Net Reserve	**$900**	**-**
Budget Stabilization Account/Rainy Day Fund	**$22,555**	**$19,429**

Note: Numbers may not add due to rounding.

General Fund Expenditures by Agency

(Dollars in Millions)

	2023-24	2024-25	Change from 2023-24 Dollar Change	Change from 2023-24 Percent Change
Legislative, Judicial, Executive	$12,704	$7,582	-$5,122	-40.3%
Business, Consumer Services & Housing	2,868	631	-2,237	-78.0%
Transportation	1,041	554	-487	-46.8%
Natural Resources	11,686	5,410	-6,276	-53.7%
Environmental Protection	2,333	624	-1,709	-73.3%
Health and Human Services	73,622	70,194	-3,428	-4.7%
Corrections and Rehabilitation	15,312	14,174	-1,138	-7.4%
K-12 Education	73,739	76,323	2,584	3.5%
Higher Education	21,635	21,830	195	0.9%
Labor and Workforce Development	1,248	844	-404	-32.4%
Government Operations	4,770	2,540	-2,230	-46.8%
General Government:				
Non-Agency Departments	2,770	1,355	-1,415	-51.1%
Tax Relief/Local Government	595	579	-16	-2.7%
Statewide Expenditures	1,565	-1,666	-3,231	-206.5%
Total	**$225,888**	**$200,974**	**-$24,914**	**-11.0%**

Note: Numbers may not add due to rounding.

2024-25 Total State Expenditures by Agency

(Dollars in Millions)

	General Fund	Special Funds	Bond Funds	Totals
Legislative, Judicial, Executive	$7,582	$5,168	$262	$13,012
Business, Consumer Services & Housing	631	1,341	538	2,510
Transportation	554	16,665	86	17,305
Natural Resources	5,410	3,040	516	8,967
Environmental Protection	624	4,723	11	5,358
Health and Human Services	70,194	40,452	10	110,657
Corrections and Rehabilitation	14,174	4,001	-	18,175
K-12 Education	76,323	123	16	76,462
Higher Education	21,830	109	599	22,538
Labor and Workforce Development	844	1,163	-	2,007
Government Operations	2,540	406	-	2,946
General Government:				
Non-Agency Departments	1,355	1,989	2	3,346
Tax Relief/Local Government	579	3,626	-	4,205
Statewide Expenditures	-1,666	2,333	3	670
Total	**$200,974**	**$85,140**	**$2,043**	**$288,157**

Note: Numbers may not add due to rounding.

General Fund Revenue Sources
(Dollars in Millions)

	2023-24	2024-25	Change from 2023-24 Dollar Change	Change from 2023-24 Percent Change
Personal Income Tax	$111,203	$116,304	$5,101	4.6%
Sales and Use Tax	33,320	34,045	725	2.2%
Corporation Tax	33,282	37,759	4,477	13.5%
Insurance Tax	3,905	4,016	111	2.8%
Alcoholic Beverage Taxes and Fees	417	422	5	1.2%
Cigarette Tax	43	41	-2	-4.7%
Motor Vehicle Fees	46	46	0	0.0%
Other	7,985	9,490	1,505	18.8%
Subtotal	**$190,201**	**$202,123**	**$11,922**	**6.3%**
Transfer to the Budget Stabilization Account/Rainy Day Fund	-847	3,126	3,973	469.1%
Total	**$189,354**	**$205,249**	**$15,895**	**8.4%**

Note: Numbers may not add due to rounding.

2024-25 Revenue Sources
(Dollars in Millions)

	General Fund	Special Funds	Total	Change From 2023-24
Personal Income Tax	$116,304	$2,923	$119,227	$5,404
Sales and Use Tax	34,045	15,665	49,710	989
Corporation Tax	37,759	-	37,759	4,477
Highway Users Taxes	-	9,475	9,475	159
Insurance Tax	4,016	-	4,016	111
Alcoholic Beverage Taxes and Fees	422	-	422	5
Cigarette Tax	41	1,390	1,431	-42
Motor Vehicle Fees	46	12,432	12,478	448
Other	9,490	34,748	44,238	-2,903
Subtotal	**$202,123**	**$76,633**	**$278,756**	**$8,648**
Transfer to the Budget Stabilization Account/Rainy Day Fund	3,126	-3,126	-	-
Total	**$205,249**	**$73,507**	**$278,756**	**$8,648**

Note: Numbers may not add due to rounding.

ECONOMIC OUTLOOK

The first months of 2024 have continued the trend of steady but slowing economic growth, notwithstanding stubborn inflation and elevated interest rates. U.S. real gross domestic product (GDP) grew at an annualized rate of 1.6 percent in the first quarter of 2024 following six consecutive quarters of higher than 2-percent growth, buoyed by strong personal consumption. With a relatively strong and stable economy, the May Revision forecast projects U.S. GDP to grow at a steady but slowing rate from mid-2024 into early 2025 amid still-tight financial conditions driving lower levels of consumption. Credit conditions are projected to ease starting in mid-2024 with loosening monetary policy as the Federal Reserve cuts target interest rates. U.S. GDP is then projected to grow at steady-state rates between 1.5 and 1.9 percent starting in mid-2025 through the end of the forecast window in 2027.

While both U.S. and California inflation have slowed from their respective June 2022 peaks, U.S. inflation experienced a recent uptick to 3.5 percent year-over-year growth in March 2024 while California inflation stood at 3.3 percent in February 2024 (the latest data available), driven mainly by lagged shelter inflation. At the time the May Revision forecast was finalized, the Federal Reserve was widely expected to start cutting rates by June 2024. However, expectations have since shifted, and the Federal Reserve may instead hold rates steady until later in 2024 or even raise rates if inflation remains persistently elevated above the target 2-percent rate.

The biggest near-term threat to the forecast continues to be the likelihood that interest rates will stay higher for longer, especially if inflation does not resume its deceleration. The current high interest rates could curtail interest-sensitive consumer spending and business investment which would hamper economic activity more than projected. Moreover, if interest rates stay higher for longer, businesses and consumers' sanguine economic outlooks could falter, and increased concerns of a near-term recession could resurface.

LABOR MARKET UPDATES SINCE THE GOVERNOR'S BUDGET

The May Revision forecast incorporates the March 2024 benchmark revisions from the U.S. Bureau of Labor Statistics (BLS) and the California Employment Development Department (EDD). The annual benchmark revisions indicated October 2022 was an inflection point where the strong job recovery from the COVID-19 Pandemic was followed by stagnation, especially in the sectors that drove the recovery. As a result, nonfarm payroll employment in the state was 231,800 lower than the pre-benchmarked estimates as of December 2023. Even with the revisions, as of March 2024, California nonfarm jobs were 1.8 percent (319,200 jobs) above the February 2020 level, with six of the eleven major sectors having surpassed their respective pre-pandemic levels. The number of nonfarm jobs added in recent months suggests California payroll employment growth in the last eight months has been in line with the nation, and appears to be rebounding from essentially flat growth in prior months.

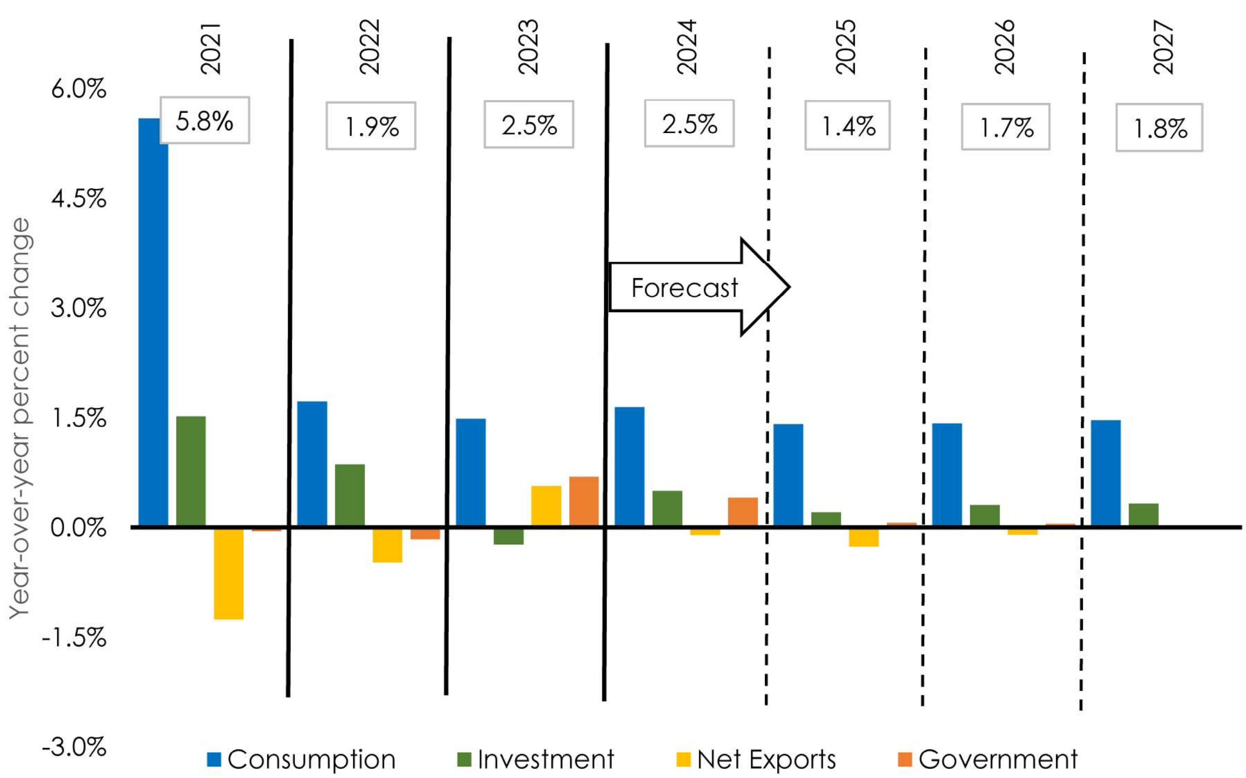
Unlike the swift nonfarm job recovery, the state's labor force has not yet recovered to its pre-pandemic level as of March 2024. Nevertheless, the labor force grew steadily in 2023, growing by 0.7 percent, slightly lower than the Governor's Budget projection of 0.9 percent but still higher than the 2019 pre-pandemic growth of 0.5 percent. Despite relatively healthy labor force growth, only 76 percent of the just over 1 million people that left the workforce at the beginning of the COVID-19 Pandemic have returned. While at lower levels, California's labor force participation rate has also continued its recovery, driven primarily by participation amongst prime-age workers (those between the ages of 25 to 54) which surpassed its pre-pandemic rate in September 2022 and remained 0.7 percentage point higher than its February 2020 level, further emphasizing the state's slow but ongoing labor force recovery.

As of March 2024, California's unemployment rate had risen 1.5 percentage points to 5.3 percent since falling to a record-low rate of 3.8 percent in August 2022. In comparison, the nation's unemployment rate fell to a historical low of 3.4 percent more recently in January and April 2023 and has since increased to 3.8 percent as of March 2024. California's civilian employment growth has been essentially flat since the second half of 2022 while the U.S. has remained relatively healthy, resulting in the state's unemployment rate rising faster than the nation. However, while California's unemployment has risen by about 300,000 since August 2022, more than 75 percent of this increase can be attributed to labor force growth as opposed to reduced civilian employment. In other words, the increase in the unemployment rate is more attributable to those entering or re-entering the labor force to look for work rather than to employers laying off workers.

THE ECONOMIC OUTLOOK THROUGH 2027: SLOWING BUT STEADY GDP GROWTH

As with the Governor's Budget forecast, economic growth is projected to continue in the May Revision forecast, driven by strong but slowing personal consumption. Growth is projected to moderate into 2025 due to the impacts of restrictive monetary policy and then return to around 1.9 percent by 2027 in line with steady-state growth trends after the widely expected rate cuts from the Federal Reserve.

Contributions to U.S. Real GDP Growth

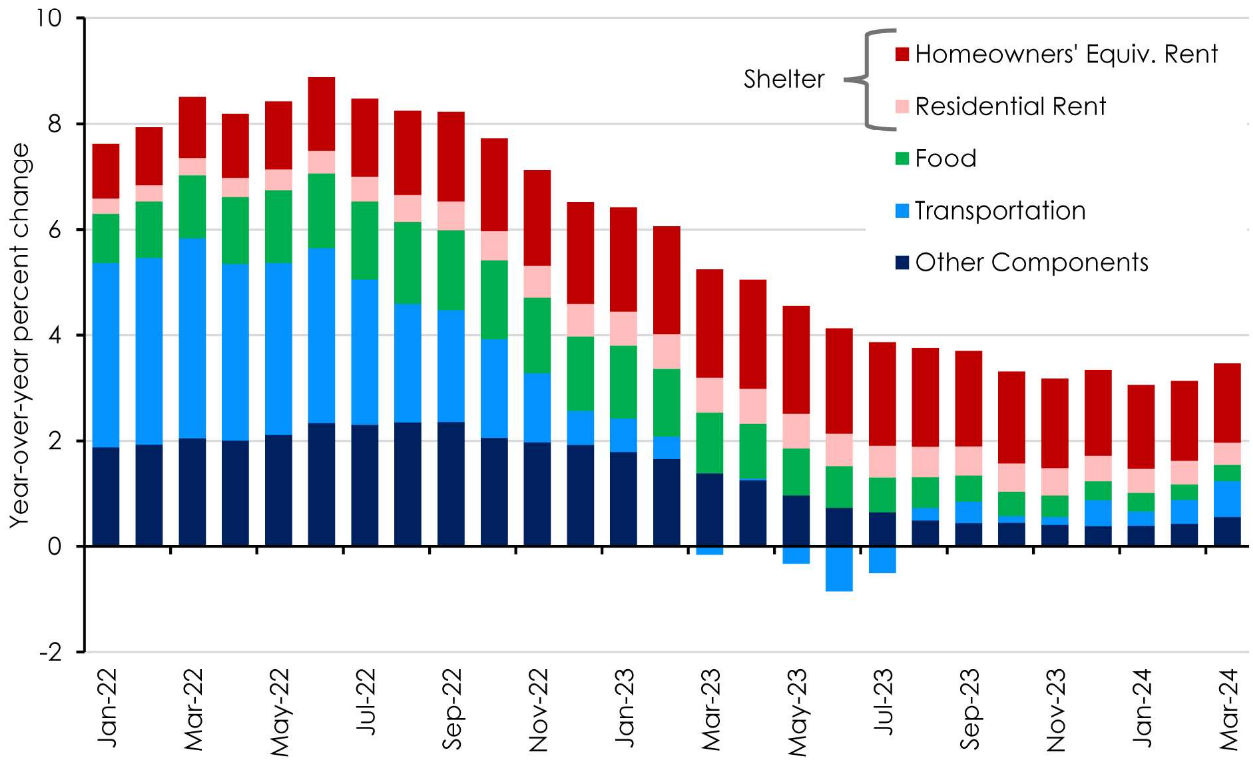


Sources: U.S. Bureau of Economic Analysis; California Department of Finance, 2024-25 May Revision Forecast.

STUBBORN INFLATION SLOW TO COOL

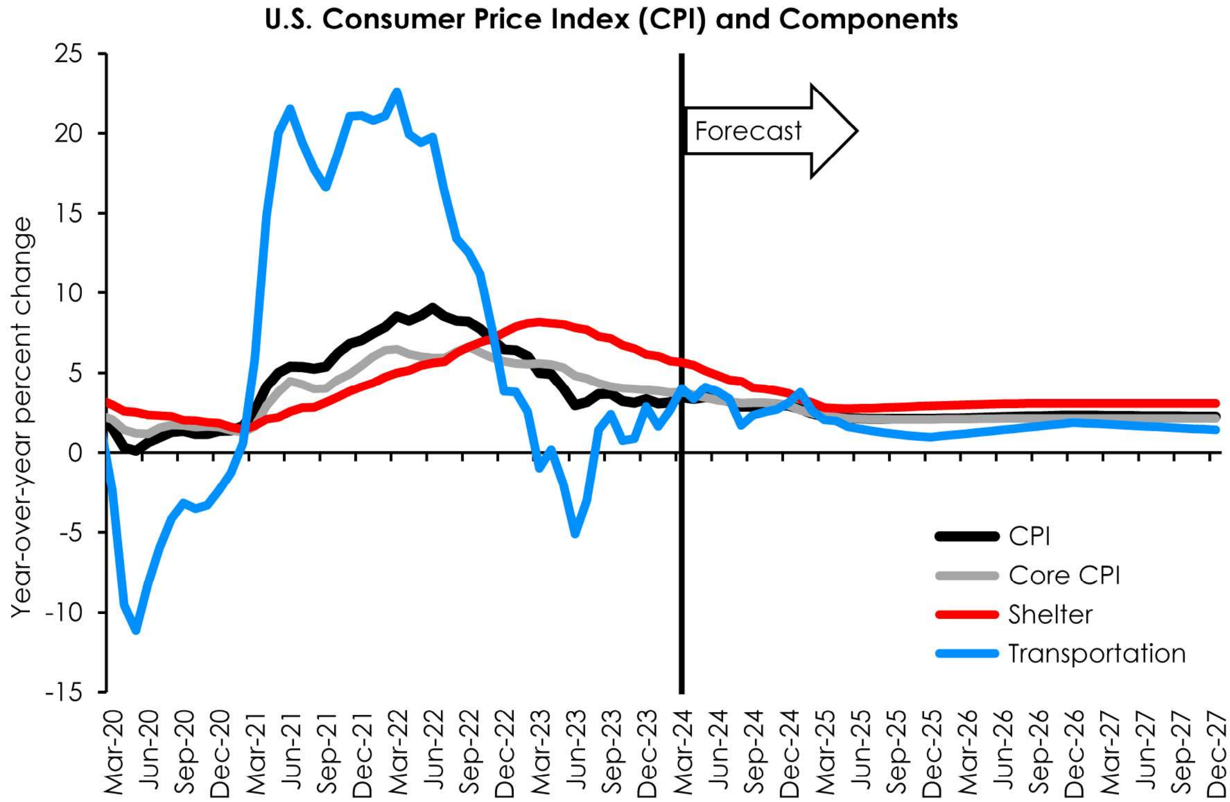
Inflation slowed sharply from its peak of 9.1 percent for the U.S. and 8.3 percent for California in June 2022 but has since hovered above 3 percent for both, more than a full percentage point higher than the Federal Reserve's target rate of 2 percent. Shelter inflation, the largest component of services, generally lags other components and has declined slower than projected. It peaked at 8.2 percent in March 2023 in the U.S. and stood at 5.7 percent in March 2024. The slower decline in shelter prices has kept overall inflation for the U.S. and California elevated.

Contribution to U.S. Consumer Price Index



Sources: U.S. Bureau of Labor Statistics; California Department of Finance, 2024-2025 May Revision Forecast.

The May Revision forecast projects U.S. headline inflation will continue to moderate as the Federal Reserve maintains its tight monetary policy stance through the middle of 2024. Shelter inflation is still projected to decelerate but at a slower rate than in the Governor's Budget forecast. Inflation is projected to then slow to historical rates of between 2 and just below 3 percent for both the nation and the state by early 2025.



Sources: U.S. Bureau of Labor Statistics; California Department of Finance, 2024-25 May Revision Forecast.
Core CPI excludes food and energy.

JOB GROWTH TO RETURN TO STEADY-STATE

California's nonfarm payroll job growth is projected to slow from late 2024 into the second half of 2025, a one-quarter lag from the projected slowdown in U.S. real GDP growth. Given the typical lag between economic activity and employment growth, the May Revision forecast projects job growth to be slowest in the second half of 2025, a slightly delayed time frame from the Governor's Budget forecast. This is due mainly to the robust U.S. real GDP growth in 2023, and relatively healthy nonfarm employment growth in the first few months of 2024. California-based firms will likely continue to attract their historical share of nationwide venture capital investment which is generally expected to fuel job growth in nascent industries. However, due to some lingering layoffs and the current high interest rate environment, the technology sector, which includes some of the most highly compensated workers in the state, is projected to add fewer jobs in 2024 than it did in 2023. As economic activity rebounds with looser monetary policy, the state's nonfarm payroll employment is projected to return to a steady-state average growth rate of 0.7 percent in 2026 and 2027.

California's labor force growth is projected to continue albeit at a slowing rate as it approaches its pre-pandemic level. Due to lower-than-expected actuals in 2023 and downward benchmark revisions, labor force growth projections through the forecast window (2024 to 2027) have been revised slightly lower than the Governor's Budget. California's labor force is projected to grow by 0.5 percent in 2024 before slowing to 0.3 percent growth by 2027, in line with the state's population projections, particularly amongst working-age individuals (those between the ages of 16 to 64) whose numbers are projected to decline through the forecast window. California's unemployment rate is projected to remain at 5.3 percent through the first half of 2025 as tight financial conditions continue to soften the labor market before moderating as credit conditions ease. See the Economic Indicators figure at the end of this chapter.

WAGE GROWTH TO CONTINUE AT A MODERATE PACE

California average wage growth contracted by 0.7 percent in 2022 and then recovered to 4.3 percent in 2023, due largely to higher levels of various irregular payments such as bonuses and options as stock prices saw renewed strength in 2023. These payments account for a disproportionate share of high-wage earners' pay and as they fluctuate, state revenues can also be affected. The information sector, with some of the highest earners in the state, in particular saw very strong average wage growth even with a decline in employment.

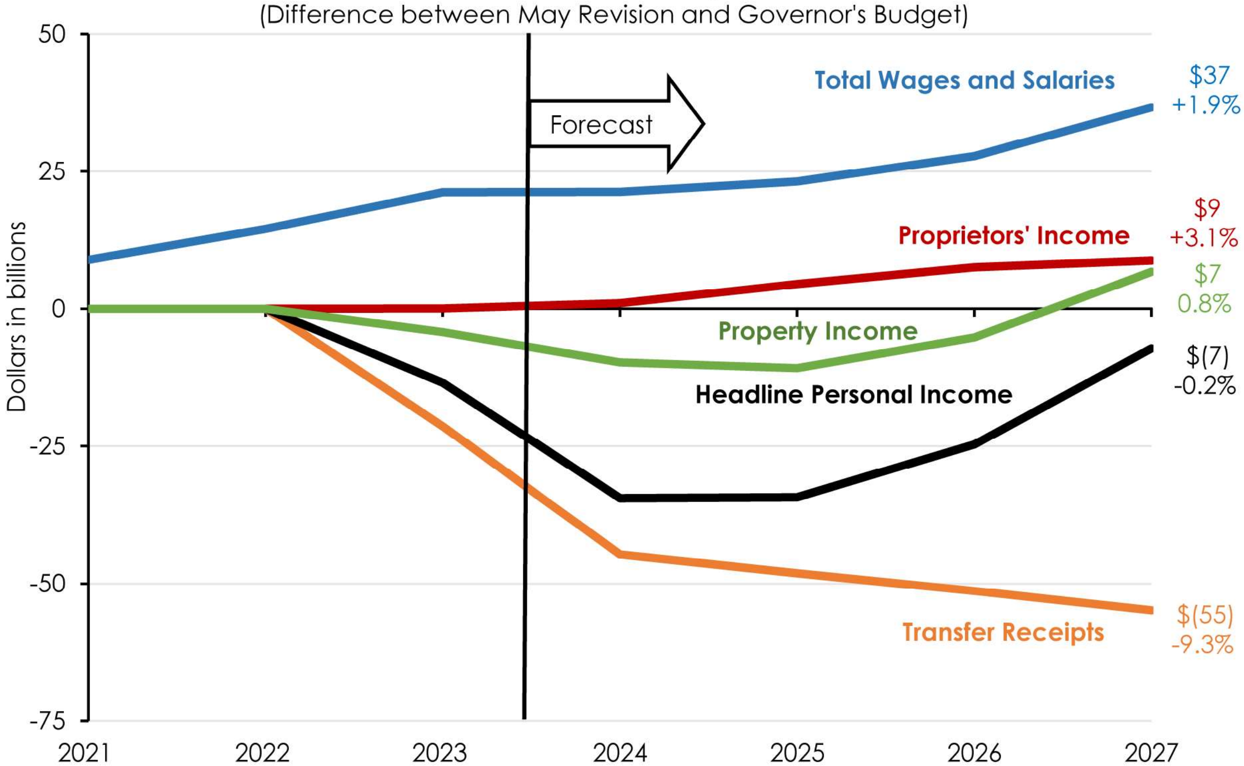
California annual average wage growth for all sectors is projected to remain close to its 2023 (and pre-pandemic) pace with growth rates of 3.5 to 3.9 percent over the forecast window. Wages in the high-paying information sector are projected to grow at their historical average annualized rate of 6 percent over the forecast window after crashing in 2022 and recovering strongly in 2023.

PERSONAL INCOME GROWTH DRIVEN BY STRONGER WAGE GROWTH

The May Revision forecast incorporates two additional quarters of personal income data through the fourth quarter of 2023 and also includes revisions to historical data. California personal income growth was slightly slower in the second half of 2023 than projected in the Governor's Budget. The downward revision to the 2023 estimate was driven by a notably lower level of Medicare transfers than estimated in the second quarter of 2023, pushing down the level of personal income growth.

The downgrade in transfers more than offset the upward revision of total wages and salaries which generally drives headline growth. Historical total wages and salaries were revised up, including $21 billion in 2023. The components of property income, which is the sum of interest, rental, and dividend income, saw minor revisions to actuals. The May Revision forecast projects interest income will have a more pronounced lagged effect compared to the Governor's Budget forecast as interest income has not been as high as previously projected even though interest rates remain high. Rental income, which tends to be driven by shelter inflation trends, remained elevated and is now projected to peak at 7.3 percent in 2025 and slow to 4.9 percent in 2027 as rental prices begin to ease. Dividend income saw a minor upward revision in 2023 and has been upgraded relative to the Governor's Budget with the assumption that the stock market continues to perform well based on its strength to date.

Personal Income Components
(Difference between May Revision and Governor's Budget)



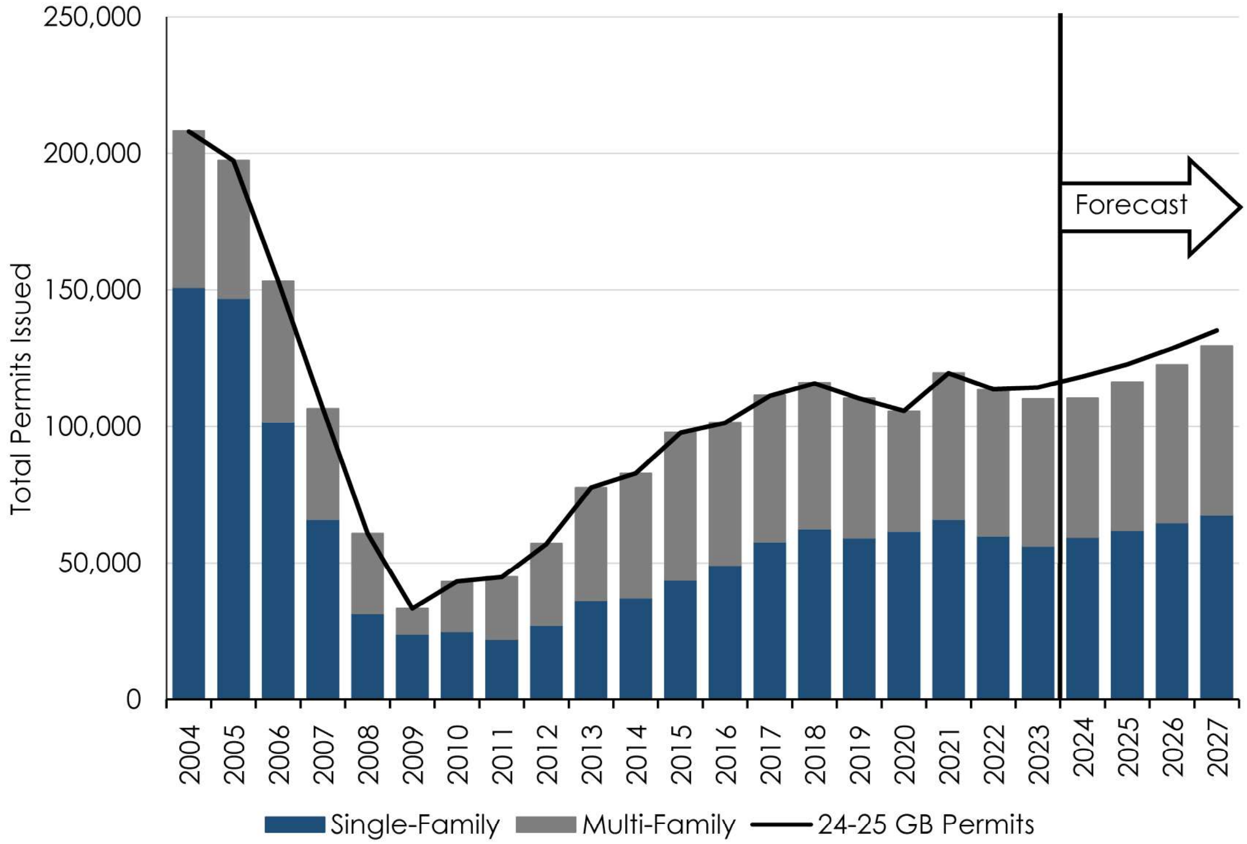
Note: Changes to projections reflect revisions to historical data.
Sources: U.S. Bureau of Economic Analysis; California Department of Finance, 2024-25 May Revision Forecast.

Headline personal income growth is projected to average 4.9 percent annually throughout the forecast window. Total wages and salaries are projected to continue growing, averaging 4.5 percent through the forecast window, likely boosting personal income tax revenues. As interest rates begin to ease in 2025, the majority of the personal income components are projected to revert to their historical growth trends by the end of the forecast window in 2027.

PERMITS PROJECTED TO SEE SLOW GROWTH IN 2024

California's residential construction sector continues to be constrained by high interest rates. In 2023, residential permits declined from 2022, falling by 2.9 percent to around 110,000 permitted units. The May Revision forecast projects slow permit growth in 2024, with total units growing about 0.3 percent from 2023 as high interest rates slow the demand for housing and make building inputs and construction loans more expensive. Single-family units, which declined in 2022 and 2023, are projected to rebound in 2024, but multifamily units are estimated to contract by 5.5 percent, the largest annual decline since 2020. Residential permits are then projected to begin growing at a faster pace in the second half of 2024 through 2027 as the Federal Reserve decreases interest rates, making construction inputs more affordable and boosting production.

Number of California Permits Issued Per Year



Sources: U.S. Census Bureau; California Department of Finance, 2024-25 May Revision Forecast.

IMMEDIATE RISKS TO THE MAY REVISION ECONOMIC FORECAST

Immediate risks to the forecast remain driven by persistent inflation and elevated interest rates. If inflation is slow to return to the Federal Reserve's target rate of 2 percent, the Federal Reserve could maintain high target rates which would result in additional drag on interest-sensitive spending. The current high interest rate environment could hamper economic activity by more than projected, especially given more cautious lending practices and if consumers curtail discretionary spending. Escalating geopolitical conflicts would likely increase economic uncertainties for the U.S. and California, even with a potential boost from increased defense spending.

The Department of Finance has not modeled a recession scenario. However, if inflation takes longer to cool and interest rates remain high for longer than projected in the May Revision baseline forecast, continued tight credit conditions could further discourage economic activity. This could deepen the expected economic slowdown and push the economy into a mild recession with steeper declines in investment and interest-sensitive consumption. GDP and nonfarm payroll employment would likely contract, and the unemployment rate would increase even further. This would then result in lower personal income growth due to lower total wages, negatively impacting state revenues.

Other geopolitical risks also remain, including an escalation of tensions between China and Taiwan. Long-term structural downside risks to the state economy and budget continue, including climate change and more frequent extreme weather events such as wildfires, drought, and floods, the challenges of an aging cohort that is becoming an increasingly larger share of the total population, declining migration inflows, lower fertility rates, ongoing stock market volatility, high housing and living costs, and potentially worsening income inequality.

Economic Indicators

Annual Percentage Change unless Otherwise Indicated

	2019	2020	2021	2022	2023	Forecast 2024	2025	2026	2027
United States									
Real GDP									
May Revision, April 2024	**2.5%**	**-2.2%**	**5.8%**	**1.9%**	***2.5%***	***2.5%***	***1.4%***	***1.7%***	***1.8%***
Governor's Budget, November 2023	2.5%	-2.2%	5.8%	1.9%	*2.5%*	*1.6%*	*1.2%*	*1.6%*	*1.8%*
Unemployment Rate (percent)									
May Revision, April 2024	**3.7%**	**8.1%**	**5.4%**	**3.6%**	***3.6%***	***3.9%***	***4.2%***	***4.5%***	***4.5%***
Governor's Budget, November 2023	3.7%	8.1%	5.4%	3.6%	*3.6%*	*3.8%*	*4.4%*	*4.7%*	*4.6%*
Nonfarm Employment									
May Revision, April 2024	**1.3%**	**-5.8%**	**2.9%**	**4.3%**	**2.3%**	***1.4%***	***0.1%***	***0.0%***	***0.3%***
Governor's Budget, November 2023	1.3%	-5.8%	2.9%	4.3%	*2.4%*	*0.7%*	*-0.3%*	*0.0%*	*0.4%*
Personal Income									
May Revision, April 2024	**4.7%**	**6.9%**	**9.1%**	**2.0%**	***5.2%***	***5.0%***	***5.2%***	***5.0%***	***4.8%***
Governor's Budget, November 2023	4.7%	6.9%	9.7%	2.0%	*5.3%*	*5.0%*	*4.8%*	*4.4%*	*4.5%*
CPI Inflation Rate (percent)									
May Revision, April 2024	**1.8%**	**1.2%**	**4.7%**	**8.0%**	***4.1%***	***3.1%***	***2.2%***	***2.2%***	***2.3%***
Governor's Budget, November 2023	1.8%	1.2%	4.7%	8.0%	*4.2%*	*2.6%*	*2.0%*	*2.1%*	*2.2%*
California									
Unemployment Rate (percent)									
May Revision, April 2024	**4.1%**	**10.2%**	**7.3%**	**4.3%**	***4.7%***	***5.2%***	***5.3%***	***5.1%***	***4.9%***
Governor's Budget, November 2023	4.1%	10.2%	7.3%	*4.2%*	*4.6%*	*5.1%*	*5.2%*	*5.0%*	*4.8%*
Civilian Labor Force									
May Revision, April 2024	**0.5%**	**-2.2%**	**0.0%**	**1.1%**	***0.7%***	***0.5%***	***0.4%***	***0.3%***	***0.3%***
Governor's Budget, November 2023	0.7%	-2.3%	0.1%	*1.4%*	*0.9%*	*0.8%*	*0.6%*	*0.5%*	*0.5%*
Nonfarm Employment									
May Revision, April 2024	**1.5%**	**-7.1%**	**3.5%**	**5.5%**	***0.9%***	***0.1%***	***0.4%***	***0.6%***	***0.8%***
Governor's Budget, November 2023	1.5%	-7.1%	3.5%	*5.6%*	*2.2%*	*1.0%*	*0.4%*	*0.5%*	*0.6%*
Residential Permits (thousands of units)									
May Revision, April 2024	**110**	**105**	**120**	**113**	***110***	***110***	***116***	***122***	***129***
Governor's Budget, November 2023	110	106	120	*114*	*114*	*118*	*123*	*129*	*135*
Average Wages									
May Revision, April 2024	**4.4%**	**11.2%**	**7.7%**	**-0.7%**	**4.3%**	***3.5%***	***3.8%***	***3.8%***	***3.9%***
Governor's Budget, November 2023	4.4%	11.3%	7.7%	*-1.0%*	*2.7%*	*3.4%*	*3.8%*	*3.7%*	*3.7%*
Personal Income									
May Revision, April 2024	**5.3%**	**9.0%**	**8.9%**	**-0.2%**	***4.2%***	***4.6%***	***5.0%***	***5.0%***	***5.0%***
Governor's Budget, November 2023	5.3%	9.0%	8.9%	-0.2%	*4.7%*	*5.2%*	*5.0%*	*4.7%*	*4.5%*
CPI Inflation Rate (percent)									
May Revision, April 2024	**4.2%**	**1.7%**	**4.3%**	**7.4%**	***3.9%***	***3.3%***	***2.7%***	***2.7%***	***2.7%***
Governor's Budget, November 2023	3.0%	1.7%	4.3%	*7.4%*	*3.8%*	*3.0%*	*2.4%*	*2.6%*	*2.7%*

2024-25 May Revision Forecast based on data available as of April 2024.

Governor's Budget Forecast based on data available as of November 2023. Figures in italics indicate forecasts, including 2023 figures for Governor's Budget Forecast.

Sources: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; U.S. Census Bureau; CA Employment Development Department, Labor Market Information Division; California Department of Finance, 2024-25 May Revision Forecast.

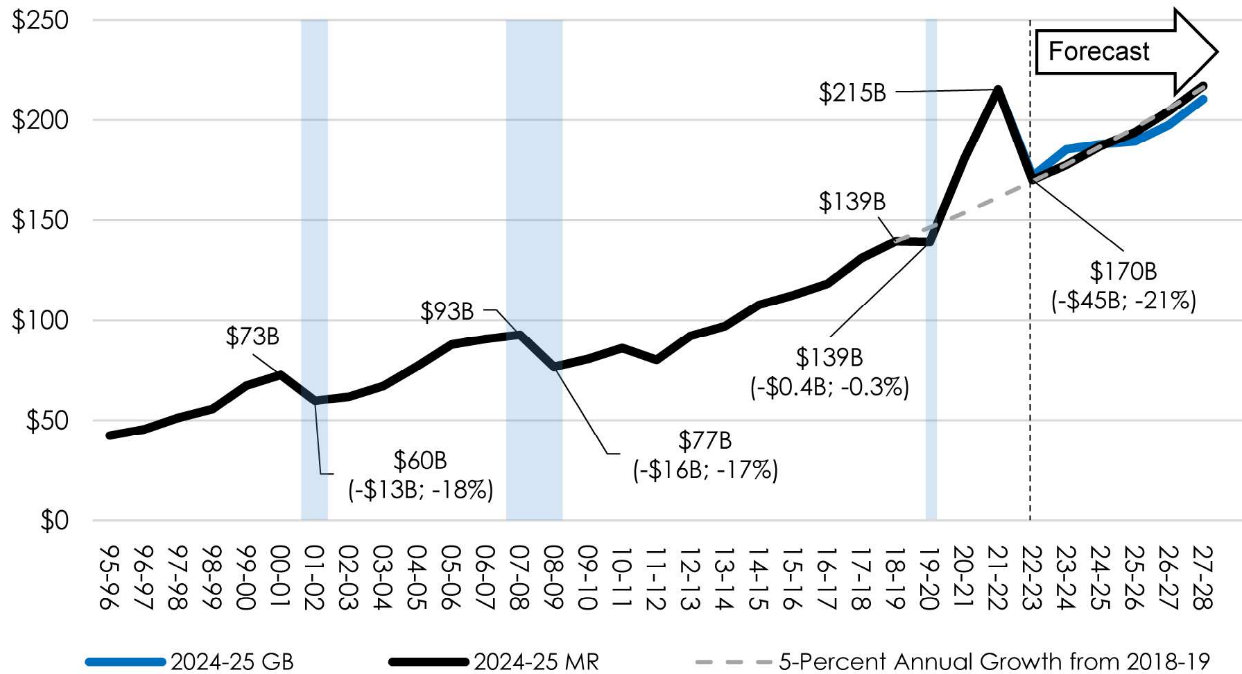
REVENUE ESTIMATES

The California and national economic pictures remain strong and resilient despite persistent inflation and elevated interest rates resulting in a slightly upgraded economic outlook compared to the Governor's Budget. Notably, the stock market has outperformed prior assumptions, exceeding its early 2022 peak in mid-January of 2024 and experiencing robust growth despite recent volatility. Nonetheless, tax receipts related to the 2023 tax year are lower than projected, with General Fund cash receipts falling short of the Governor's Budget forecast by $5.8 billion cumulatively through March, and personal income tax and corporation tax receipts adding around $600 million to the shortfall in April. These two factors, weak cash receipts related to the 2023 tax year and upgraded growth assumptions going forward, have led to downgrades to the revenue forecast in the budget window—fiscal years 2022-23 through 2024-25—followed by upward revisions in the multiyear—fiscal years 2025-26 through 2027-28.

Following the stock market run-up through the end of 2021, asset prices fell in 2022, with the S&P 500 declining by 19 percent and the NASDAQ Composite Index—which measures more than 2,500 stocks concentrated in technology companies, many of which are California-based—declining by 33 percent. As a result, the state's "Big Three" General Fund revenue sources—personal income, sales, and corporation taxes—declined by 21 percent in 2022-23 after increasing by a remarkable 55 percent from 2019-20 to 2021-22. While the stock market rebounded and recovered nearly all its losses by the end of 2023, cash receipts for the year remain weak due likely in part to increased capital loss carryovers from asset market declines in 2022. New tax year 2022 data show capital loss carryovers grew by 62 percent in 2022, exceeding the 58-percent increase in 2008 during the Great Recession.

Despite the year-over-year decrease, 2022-23 Big Three revenues are estimated to be 22 percent higher than pre-pandemic levels in 2018-19, consistent with a normal 5-percent revenue growth trajectory absent the COVID-19 surge and subsequent correction. In the forecast window, the Big Three revenues are generally projected to grow at normal historical growth rates on average as illustrated in the Big Three Revenues figure.

Big Three Revenues
(Dollars in Billions)



Projected revenue figures exclude the impact of tax policy proposals and solutions.
Shaded bars indicate previous U.S. recessions.
Source: California Department of Finance, 2024-25 May Revision Forecast.

BUDGET WINDOW

Before accounting for budget solutions and tax policy proposals, General Fund revenue is projected to be approximately $11.6 billion lower than assumed in the Governor's Budget over the budget window. While there are various changes as summarized in the 2024-25 May Revision General Fund Revenue Forecast Reconciliation with the 2024-25 Governor's Budget figure, this downgrade is driven largely by the Big Three as detailed below.

2024-25 May Revision
General Fund Revenue Forecast
Reconciliation with the 2024-25 Governor's Budget
(Dollars in Millions)

Source	Governor's Budget	May Revision	Change From Governor's Budget	
Fiscal 2022-23 (Preliminary)				
Personal Income Tax	$101,749	$100,451	-$1,298	-1.3%
Corporation Tax	37,140	36,337	-803	-2.2%
Sales & Use Tax	33,186	33,324	137	0.4%
Insurance Tax	3,690	3,707	17	0.5%
Alcoholic Beverage	421	421	0	0.0%
Pooled Money Interest	2,391	2,391	0	0.0%
Cigarette	47	47	0	0.0%
Not Otherwise Classified Revenues	2,520	2,537	17	0.7%
Subtotal	$181,144	$179,214	-$1,930	-1.1%
Transfer To/From BSA	0	0	0	n/a
Other Transfers and Loans	-728	-670	57	-7.9%
Total	**$180,416**	**$178,544**	**-$1,873**	-1.0%
Fiscal 2023-24				
Personal Income Tax	$113,768	$111,203	-$2,565	-2.3%
Corporation Tax[1/]	36,913	33,182	-3,731	-10.1%
Sales & Use Tax	34,643	33,320	-1,323	-3.8%
Insurance Tax	3,894	3,905	12	0.3%
Alcoholic Beverage	427	417	-10	-2.4%
Pooled Money Interest	3,044	2,817	-227	-7.5%
Cigarette	43	43	-1	-1.2%
Not Otherwise Classified Revenues	3,206	3,512	306	9.5%
Tax Policy Proposals	0	100	100	n/a
Subtotal	$195,938	$188,499	-$7,439	-3.8%
Transfer To/From BSA	-1,424	-847	577	-40.5%
Transfers and Loans Solutions	0	-493	-493	n/a
Other Transfers and Loans	2,345	2,195	-150	-6.4%
Total	**$196,859**	**$189,354**	**-$7,505**	-3.8%
Fiscal 2024-25				
Personal Income Tax[1/]	$114,730	$116,176	$1,447	1.3%
Corporation Tax[1/]	38,055	36,778	-1,277	-3.4%
Sales & Use Tax[1/]	35,123	34,043	-1,080	-3.1%
Insurance Tax	4,021	4,016	-6	-0.1%
Alcoholic Beverage	433	422	-10	-2.4%
Pooled Money Interest	1,791	2,067	276	15.4%
Cigarette	42	41	-1	-1.2%
Not Otherwise Classified Revenues	6,810	4,474	-2,336	-34.3%
Tax Policy Proposals	0	116	116	n/a
Revenue Solutions	402	995	592	147.2%
Subtotal	$201,407	$199,128	-$2,280	-1.1%
Transfer To/From BSA (Solution)	12,201	3,301	-8,900	-72.9%
Non-BSA Transfers and Loans Solutions	2,504	3,904	1,400	55.9%
Other Transfers and Loans	-1,238	-909	329	-26.6%
Total	**$214,699**	**$205,249**	**-$9,450**	-4.4%
Three-Year Total Excluding Solutions and Policy Proposals			**-$11,643**	
Three-Year Total Including Solutions and Policy Proposals			**-$18,828**	

[1/] Excludes the impact of revenue solutions and tax policy proposals.

- **Revenues from the Big Three**, before accounting for budget solutions and tax policy proposals, are projected to be lower by $10.5 billion, due largely to weak cash results since the Governor’s Budget. The forecast for personal income tax is revised down by $2.4 billion, corporation tax revenues are lower by $5.8 billion, and the sales tax forecast is downgraded by $2.3 billion.
- **Minor revenues**, such as insurance taxes, alcoholic beverage taxes, cigarette taxes, and interest earned on pooled money, are higher by $49 million largely due to a $48 million upgrade in the pooled money interest forecast as the $22 million upgrade in insurance tax is offset by downgrades in alcoholic beverage and cigarette taxes.
- **Other minor not otherwise classified revenues** are $2 billion lower, due largely to Federal Emergency Management Agency (FEMA) COVID-19 recovery costs reimbursement shifting from 2024-25 to 2025-26.
- **Revenue solutions** are projected to increase General Fund revenues by $995 million in 2024-25, an upgrade of $592 million relative to what was assumed in the Governor’s Budget.
- **Transfers and loans solutions**, excluding transfers to the Budget Stabilization Account (BSA), are projected to increase General Fund revenues by $3.4 billion, an upgrade of $908 million relative to what was assumed in the Governor’s Budget.
- **BSA transfers** are projected to increase General Fund revenues by $2.5 billion in total, a downgrade of $8.3 billion relative to the Governor's Budget. The May Revision assumes a $3.3 billion withdrawal from the BSA in 2024-25, an $8.9 billion downgrade compared to what was assumed in the Governor’s Budget due to that amount shifting to 2025-26.

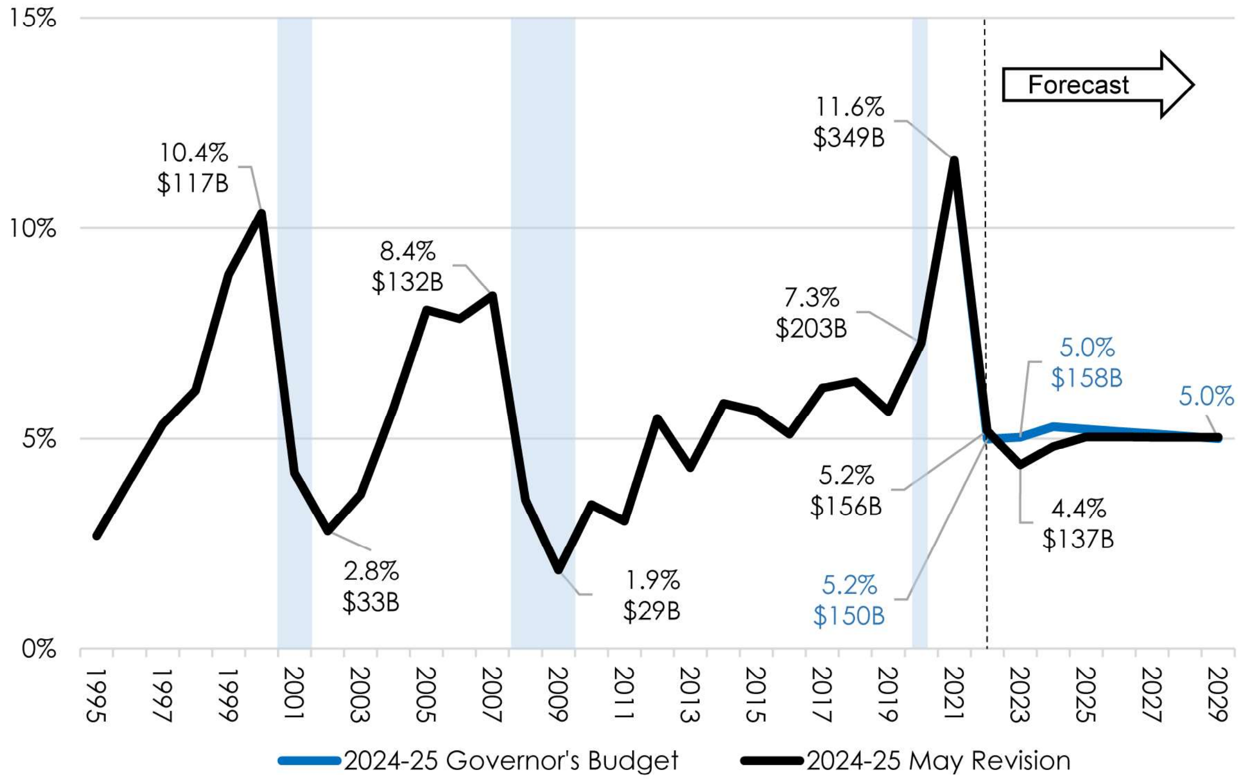
PERSONAL INCOME TAX

Before accounting for budget solutions, the personal income tax forecast is lower by $1.3 billion in 2022-23, lower by $2.6 billion in 2023-24, and higher by $1.4 billion in 2024-25 compared to the Governor’s Budget forecast.

Personal income cash receipts are down approximately $3.5 billion from the Governor's Budget through April, due primarily to weak 2023 fourth quarter estimated payments, indicating weakness in 2023 tax liability. Informed by cash results through late April, capital gains realizations are projected to decline from $156 billion in 2022 to $137 billion in 2023—a $21 billion downgrade compared to the Governor’s Budget's projection of

$158 billion for 2023. This is a projected 12-percent year-over-year decline in 2023 and follows a 55-percent annual contraction in 2022. In 2023, capital gains realizations' share of personal income is estimated to decline to 4.4 percent, its lowest share since 2013, as illustrated in the Capital Gains Realizations as a Share of Personal Income figure.

Capital Gains Realizations as a Share of Personal Income



Shaded bars indicate previous U.S. recessions.
Source: California Department of Finance, 2024-25 May Revision Forecast.

Reflecting gains in equity markets since the Governor's Budget and an upgraded stock market outlook, capital gains realizations are projected to increase by approximately 15 percent in 2024 and by 10 percent in 2025 when the capital gains realizations' share of personal income is projected to reach 5 percent. Capital gains realizations are assumed to largely grow in line with the economy from 2026 on; however, capital gains levels are projected to remain lower than the Governor's Budget projections due to their lower base in 2023.

Several personal income tax components are revised higher in the May Revision forecast due to the improved economic outlook, notably withholding is cumulatively above the Governor's Budget forecast by nearly $950 million through April. Growth in withholding is likely driven in part by higher levels of stock-based compensation for large technology companies. Withholding receipts increased 9.1 percent in the first four months of the year and are projected to grow 6.5 percent in 2024, leading to an upward revision of $1.1 billion in 2023-24 and $1.6 billion in 2024-25.

CORPORATION TAX

Before accounting for budget solutions and tax policy proposals, the corporation tax forecast is lower by $803 million in 2022-23, $3.7 billion in 2023-24, and $1.3 billion in 2024-25.

Corporation tax cash receipts are down $1.9 billion through April, with higher refunds accounting for $1.2 billion of the overall shortfall. Elevated corporation refunds since November are due largely to Pass-Through Entity Elective Tax (PTET) overpayments being significantly higher than assumed in the Governor's Budget, which results in downgrades in future PTET liability and payments. Updated projections for PTET explain $4.5 billion of the overall $5.8 billion budget window downgrade in corporation tax revenues excluding solutions. Conversely, lower projected PTET credit usage boosted personal income tax revenues by $4.3 billion in the budget window.

Part of the fiscal year-to-date cash shortfall is also attributed to 2023 fourth quarter estimated payments in December and final and extension payments in April, indicating weakness in baseline corporation tax revenues, which are assumed to continue to drag down revenues in the near-term. Corporation tax revenues are upgraded in the multiyear due to an improved forecast for taxable profits.

SALES AND USE TAX

Before accounting for budget solutions, the sales tax forecast is $137 million higher in 2022-23, $1.3 billion lower in 2023-24, and $1.1 billion lower in 2023-24.

Sales tax revenues are downgraded starting in 2023-24 due to lower-than-anticipated taxable sales in the second half of 2023, resulting in sales tax cash receipts falling short of projections by $1 billion cumulatively through March. Taxable sales weakness is due likely to taxable goods price growth slowing or even declining and the ongoing shift from goods to services spending. Sales tax revenues are projected to remain lower by approximately $1 billion per year through the end of the multiyear due to the lower base in 2023-24.

RISKS AND UNCERTAINTY

The May Revision revenue forecast is based on a scenario that assumes continued economic growth and does not assume a recession. Continued stock market strength and improved economic growth support the budget forecast assumptions that revenue growth will resume in 2023-24 following the steep correction in 2022-23. However, several risk factors could negatively impact the economy and state revenues going forward. For instance, a significant financial shock from tightening monetary policy, stock market and asset price volatility and declines, and geopolitical turmoil are all issues posing risk to ongoing economic and revenue growth.

Additionally, revenue forecasting is always subject to significant uncertainty, even if the underlying economy and the stock market are performing in line with expectations. This is true particularly in the personal and corporate income tax forecasts, with the reliance on a small group of high-income taxpayers as well as the timing of when assets are sold and when credits, carryover losses, and Net Operating Losses (NOLs) are used. Moreover, the tax liability of these high-income taxpayers tends to be volatile as they earn a larger share of their total income from capital gains and stock-based compensation. To illustrate, for the 2022 tax year, the top one percent of resident income earners, or about 175,000 tax returns, paid around 39 percent of resident personal income taxes—down 11 percentage points from nearly 50 percent in 2021 and its lowest share since 2009.

While the magnitude of potential revenue swings has likely declined, revenues could still end up $15 billion higher or lower in 2024-25 even if the economy and asset markets perform largely in line with expectations.

TAX PROPOSALS

The May Revision includes the following new proposals:

- **Apportionment Factor**—Clarification of existing law that when a corporation receives income that is excluded from taxable business income, it must exclude this income from its apportionment factor. This proposal is projected to increase General Fund revenues by $216 million in the budget window.
- **Low Income Housing Tax Credits**—One-time additional $500 million in state Low Income Housing Tax Credits for 2024-25. This proposal has no revenue impact in the

budget window, but is projected to decrease General Fund revenues by $400 million in the multiyear.

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