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March 13, 2026

Mr. Joe Stephenshaw, Director
Department of Finance
1021 O Street, Suite 3110
Sacramento, California 95814

Dear Mr. Stephenshaw:

In a letter dated February 23, 2026, you notified the Joint Legislative Budget Committee (JLBC), pursuant to Government Code section 13332.11(g), of a request from the Board of Governors of the California Community Colleges to augment the College of San Mateo's affordable student housing project by \$11.1 million from the Public Buildings Construction Fund. The State Public Works Board (SPWB) is scheduled to hear the item on March 18, 2026.

In 2023, the San Mateo County Community College District (SMCCCD) submitted an application for a \$66 million affordable housing project and was awarded \$56 million General Fund from the Higher Education Student Housing Grant Program. In 2024-25, in response to a budget deficit, the state shifted the fund source from one-time General Fund to state lease revenue bonds. At the time, the district committed \$10 million of its own funds.

According to the district, the estimated project cost has increased by \$20 million—to \$76 million—due to several factors including:

- A delay in state financing when the program switched from a General Fund grant program to lease revenue financing.
- The imposition of federal tariffs and inflation.
- A labor shortage due to the wildfire rebuilding efforts in Southern California.
- Code changes.
- A delay in the construction schedule due to a site change that addressed community concerns and local permitting requirements.

The scope of the project also changed in size by approximately 7,000 square feet to accommodate more support space for the residents and more beds – from 310 to 316.

When the state shifted the fund source from one-time General Fund to state lease revenue bonds, language was added to allow the SPWB to augment project funding by up to 20 percent of the amount appropriated for each capital outlay project using the existing process at the SPWB established in Government Code section 13332.11.

According to your letter you are recommending the SPWB approve an augmentation of \$11.1 million, equal to 19.9% of the original appropriation, while the district covers the remaining \$9 million in additional costs.

My staff informs me that the LAO has reviewed the request and issued a letter raising a number of concerns.

First, while the request for an augmentation aligns with Government Code section 15820.205(d), the LAO believes it may conflict with two other statutory provisions requiring districts to cover cost overruns using nonstate funds.

Second, the LAO pointed out that SMCCCD is better positioned than most other districts to cover project cost overruns with local funds because the district receives local property tax revenue in excess of its funding allocation under the Student Centered Funding Formula.

Third, approval of this request could lead to increased cost exposure for the state if other projects submit similar augmentation requests.

Fourth, it is unclear if the scope changes to SMCCCD's project were discretionary and to what extent those changes contributed to the project's cost increase.

Finally, the LAO argues the cost could be covered within the existing authority under the Higher Education Student Housing Grant Program instead of the Public Buildings Construction Fund. Providing the augmentation outside this existing bond authority could unnecessarily raise state costs.

I appreciate the comments and believe the Board of Governors of the California Community Colleges and the Department of Finance should rigorously scrutinize any future requests.

While I concur with this project augmentation request, I share the LAO's concerns and the state's broader cost exposure for this program. Moving forward, as the administration reviews any other requests for state funding augmentations for community college student housing projects, I request that it work with the Chancellor's Office to ensure: (1) the state augmentation will not be supporting project scope expansions that are discretionary in nature, (2) the district has explored all options to contain project costs through value engineering, and (3) the district is covering cost overruns using nonstate sources to the greatest extent possible.

Mr. Joe Stephenshaw

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March 17, 2026

In addition, I respectfully request the administration and the Chancellor's Office inform the JLBC and the budget subcommittees when additional requests are received.

Sincerely,

A handwritten signature in black ink that reads "John Laird". The signature is written in a cursive, flowing style.

John Laird
Chair

cc: Members of the Joint Legislative Budget Committee