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Colleagues,

On Sunday, June 15th, the Legislature approved a budget for the 2014-15 fiscal year and sent it to the Governor's desk. While subcommittees of both houses had previously voted to augment the CCCs by $246M by assuming the higher budget year revenue that has been estimated by the Legislative Analyst's Office, the Governor held fast to the level of spending he proposed in the May Revision. Ultimately, Governor Brown won out on expenditures for the second consecutive year.

One significant deviation made to the Governor's K14 expenditure plan is that deferrals will not be completely eliminated as of the 2014-15 fiscal year. Some of this revenue was diverted within the minimum guarantee to fund other legislative priorities such as early childhood education, another round of funding for the Career Pathways Trust competitive grant program, and funding for prior mandate claims.

Budget Details - California Community Colleges

The 2014-15 budget approved by the legislature continues the state's reinvestment in public education, with greater funding augmentations for the Community Colleges system. Specifically, the 2014-15 budget provides new funding for access, a cost of living adjustment (COLA), student success and equity, CTE, and other system priorities. Major components of the 2014-15 budget include:

- **Access** –The budget provides $140.4M to restore system access (2.75% increase). This is enough funding to restore approximately 60,000 students (headcount) to the system.
- **COLA** - $47.3M to fund the statutory COLA of 0.85%.
- **Maintenance and Instructional Equipment** – The budget provides $148M for deferred maintenance and instructional equipment (specified as one-time, though paid with ongoing funds). Flexibility is provided for districts to determine the split of expenditures between maintenance and instructional equipment, and the local match requirement for these funds has been removed.
- **Student Success and Support Program** – The budget provides an additional $100M for the SSSP, which is fundamental to implementing the recommendations of the Student Success Task Force. Currently this program has a required local match of 3:1, though the match is under review.

- **Student Equity Plans** - The budget provides $70M to strengthen support for underrepresented students. Districts are to use these funds to close gaps in access and achievement for underrepresented student groups, as identified in Student Equity Plans.
- **Economic and Workforce Development Program** - The budget provides $50M for the Economic and Workforce Development Program (EWD) on a one-time basis "to improve student success in career technical education." The funds are intended to develop, enhance, and expand CTE programs that build upon existing regional capacity to better meet regional market demands.
- **California Career Pathways Trust** - The budget provides an additional $250M for the Career Pathways Trust established in 2013-14 as an education and workforce development initiative with the goal of successfully transitioning students to postsecondary education and employment.
- **Proposition 39** - $37.5M for Proposition 39 energy efficiency projects and workforce development. The budget includes $37.5M for Proposition 39 projects to fund energy efficiency projects and expand workforce training and development related to energy efficiency and sustainability. The split between energy efficiency and workforce development is at the discretion of the Chancellor's Office.
- **Disability Services and Programs for Students** – The budget provides a $30M augmentation to the DSPS program. Combined with the $15M increase received in the current year, the program has been restored to the funding level of the 2008-09 fiscal year.
- **Mandate Payments** - $49.5M for earlier mandate reimbursement claims. This will partially reimburse districts for expenditures incurred for compliance with state-imposed mandates.
- **Technical Assistance** - $2.5M for technical support assistance to colleges, with a priority for assistance placed on colleges demonstrating low performance in any areas of operation. Correspondingly, the Chancellor's Office has been provided 9 new positions and $1.1M to set goals and monitor progress across key areas of college operation.
- **Deferrals** - $497.8M to pay down system deferrals (over multiple years). Currently, the Community College system's inter-year deferrals are approximately $592.4M, the 2014-15 budget allocates $497.8M using a combination of prior year, current year, and budget year funds to reduce outstanding system deferrals to $94.6M.
- **Cal Grants** - An increase in the Cal Grant B award to $1,648

Non Proposition 98

- **Innovative Models of Higher Education** - The 2014-15 budget includes $50 million in one-time funding (non-Proposition 98) to offer incentive awards that recognize models of innovation in higher education that 1) increase the number of students earning bachelor's degrees, 2) increase the number of bachelor's degrees earned within four years, and 3) ease transfer the state's education system. These awards are available to California Community Colleges, California State University campuses, and University of California campuses, individually, or as part of a collaborative proposal.

Additional CCC Budget Highlights

In addition to the direct funding provisions, there are additional areas of the budget agreement worthy of attention:

- Positive Spending Trigger. The 2014-15 budget includes a positive trigger allowing the Director of Finance to increase Proposition 98 funding if the Proposition 98 guarantee is higher than estimated at the time of the Budget Act. The first call on additional expenditures will be to pay down the remaining K-14 deferrals ($94.465M for the CCCs).
- Funding Proposal for CalSTRS. The 2014-15 budget includes a proposal to close the $74 billion gap in unfunded CalSTRS liabilities over the next 30 years. This proposal has been modified slightly from the version put forth in the Governor's May Revision. Under the revised proposal, the STRS employer contribution rate for the 14-15 year will be 8.88% (an increase of 0.63%) resulting in an increased statewide cost to colleges of approximately $14M. From the 2015-16 through the 2019-20 fiscal years, the rate will grow by an additional 1.85%, annually. In 2020-21, it will further grow by 0.97%, resulting in an employer contribution rate of 19.1% at that time. This represents an unfunded expenditure for district general funds. The impact of this agreement will ultimately result in $250M (likely more as the employee compensation base increases by growth and COLA over the years) in annual costs for districts.
- New Apportionment Growth Formula. Trailer legislation includes legislative intent that funds provided for increased access "be expended for purposes of increasing the number of FTES in courses or programs that support the primary missions of the segment." The Chancellor's Office will also be required to annually report on the number of course sections and FTES that were added in the previous year that are "within the primary missions of the segment." Clearly, there is significant interest from the Legislature in how the system grows, not just in how much it grows.
- Increase CDCP Funding Rate. The 2014-15 budget includes language increasing the funding rate for career development and college preparation (CDCP) courses to equal the rate provided for credit courses commencing in the 2015-16 fiscal year.

CONCLUSION: Overall, we are very pleased to see the Governor and Legislature provide a budget so clearly supportive of access and success. While the Budget Act does not regain ground for the lost purchasing power of the recessionary years, for the second consecutive year it does fund the annual COLA described in statute. We are also pleased to see that districts are permitted flexibility as to how they choose to allocate their share of the $148M in Physical Plant/Instructional Equipment funding and will not be required to meet a local match. Also, the partial funding for prior mandate claims chips away at the state's obligations to community college districts. The planned increase in CDCP rates will more adequately fund this important work and help incentivize the provision of CTE instruction.

While we are pleased to see so much funding restored to the system after the dramatic reductions of the economic downturn, some areas of concern still remain. We note that districts should remember that Proposition 30 revenues are temporary – the sales tax increase ends on December 31, 2016, and the income tax increase ends two years later. Without an extension of these taxes, there is a threat of reduced funding or very slow growth in the not too distant future. While we understand the need to address the STRS shortfall, the rate increases will significantly impact district budgets. Further, colleges are still feeling the effect of the lost purchasing power resulting from the lack of COLAs during the difficult budget years. While the 2013 and 2014 Budget Acts fund the statutory COLAs for those years, no progress has been made toward restoring the lost purchasing power from earlier years.

Finally, while some progress has been made toward stabilizing the system's apportionment base, we are still subject to potential funding deficits should property taxes or fee revenues fall short of estimates made at the time of the Budget Act. We recommend districts budget cautiously to prepare for shortfalls, which can be unknown until the end of the fiscal year.

Regards,

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