



The Board of Governors of the California Community Colleges

PRESENTED TO THE BOARD OF GOVERNORS

DATE: January 20, 2015

SUBJECT: Update on the Governor's 2015-16 Budget Proposal		Item Number:	
		Attachment: No	
CATEGORY:	Fiscal Policy	TYPE OF BOARD CONSIDERATION:	
Recommended By:	Dan Troy, Vice Chancellor	Consent/Routine	
		First Reading	
Approved for Consideration:	Brice W. Harris, Chancellor	Action	
		Information	X

ISSUE: This item presents an overview of the Governor's 2015-16 budget proposal as it relates to the California Community Colleges.

RECOMMENDATION: This item is presented for Board information and discussion.

BACKGROUND: On January 9, 2015, Governor Brown released his 2015-16 budget proposal, and the outlook for Proposition 98 and for the California Community Colleges appears very positive. While we will learn more details about the proposals in the coming days and weeks, I wanted to provide you with the key components of the proposals as soon as possible.

ANALYSIS: The general fund revenues for the state are estimated at \$114.8 billion and expenditures of \$113.3 billion, leaving a balance of approximately \$1.5 billion with \$2.8 billion in the Budget Stabilization Account. Despite the continued growth in state revenues, Governor Brown has highlighted several reasons for caution, including standard recessionary cycles, the short term nature of Proposition 30, unfunded state liabilities, and a tax system heavily reliant on capital gains.

Proposition 98 - The approved budget for 2014-15 set the K-14 minimum guarantee at \$60.9 billion. For 2015-16, the Governor estimates the guarantee at \$65.7 billion - a year over year increase of about 7.9%. Additionally, as the budget finds that the guarantee for the current and prior years was underfunded; significant one-time K-14 resources are provided to settle up the difference. As noted below, the Governor proposes to primarily use these one-time resources to retire deferral obligations and pay down outstanding mandate claims.

California Community Colleges- The proposed 2015-16 augmentations for CCCs include:

- **\$200M for student success** – These funds will be split evenly between Student Success and Support Program (SSSP) and Student Equity Plans. We are aware that districts will want to know what local match will be required for the budget year, and we’re committed to informing you of that decision soon.
- **\$125M to increase base allocation funding** – This increase is intended to ease the constrained discretionary funding environment colleges have experienced since the economic downturn. These funds can help colleges address the scheduled increases in STRS and PERS contribution rates, for example.
- **\$106.9M (2%) for Increased Access**– This funding would increase access for approximately 45,000 students (headcount).
- **\$92.4M for COLA** – This would fund the statutory cost-of-living-adjustment of 1.58%.
- **\$49M to fund CDCP rate equalization** – Legislation passed concurrently with the 2014 Budget Act equalized the CDCP rate to that of the resident credit rate commencing with the 2015-16 year. This augmentation would fund that increased cost.
- **\$48M for Career Technical Education** – These *one-time* funds are proposed for support of the SB 1070 Career Technical Education Pathways Program.
- **\$29.1M for Apprenticeship** - \$14.1M of these funds would restore the rates and seats of current programs back to the 2007-08 levels and an additional \$15M is proposed for innovative apprenticeship projects that focus on new and emerging industries with unmet labor market demand.
- **\$39.6M for Proposition 39** – These funds support projects and workforce development related to energy sustainability, consistent with the provisions of Proposition 39.

In addition to these proposed funds for the budget year, the Department of Finance now estimates that Proposition 98 obligations for the current and prior year were significantly higher than budgeted. This results in the availability of significant *one-time* resources.

- **\$94.5M to retire deferrals** - Legislation passed concurrently with the 2014 Budget Act identified deferrals as the first call on any new current year Proposition 98 expenditures. This

funding would completely retire system deferrals, which had reached as high as \$961M just prior to the passage of Proposition 30.

- **\$351M to pay down outstanding mandate claims** – These one-time funds would be allocated to districts on a per-FTE basis. They would retire outstanding mandate claims, to the extent districts have any such obligations on the books. While the majority of these funds are attributable to the current and prior years (\$80 million to 2013-14 and \$146 million to 2014-15), approximately \$125 million counts against the 2015-16 minimum guarantee.

Major Policy Change for Adult Education

In an effort to address the decrease in adult education offerings that occurred largely due to the flexing and subsequent repeal of the K12 Adult Education categorical item, the legislature passed AB 86 in 2013. As you know, \$25M was provided in the 2013 Budget Act for 2-year grants to local K12/CCC consortia to develop regional adult education service plans. K12 districts were required to maintain 2012-13 levels of spending on adult education programs during that time.

The Governor proposes a \$500M Adult Education Block Grant to fund courses in elementary and secondary basic skills, citizenship, ESL, programs for adults with disabilities, short-term CTE programs, and programs for apprentices. The Governor emphasizes the need for course offerings to be linked with regional economic needs and provide clear pathways to in-demand jobs. The Chancellor and the Superintendent of Public Instruction will jointly approve allocation of funds to each consortium, with an emphasis on providing funds to regions with the greatest need for adult education. Funds provided to each consortium will be allocated by a local allocation board designated by consortium members. Each consortium will be required to annually report its progress toward fulfilling adult education plans. One important provision is that, in order to ease the transition to the new program, funding will be provided to K12 districts in the amount of their maintenance of effort for adult education. Future funding would depend on consortium plans and reporting.

It should be noted that this proposal does not restrict any community college adult education offerings, whether credit or noncredit, currently funded through the base apportionment. The \$500M is proposed as funding in addition to existing CCC offerings.

This is a very major policy change that will receive considerable attention and debate during the legislative process, and the Chancellor's Office will be highly engaged in that process and will endeavor to keep you apprised of events as they transpire.

UC and CSU - The Governor continues the four-year investment plan initiated in 2013-14 by funding 4% increases in general fund support for UC and CSU. This equates to an increase of \$119.5 million each for the UC Regents and the CSU Board of Trustees. The Administration reiterates that this funding increase is contingent upon the systems keeping tuition and fees at 2011-12 levels through 2016-17.

K-12 - The Governor proposes to continue making progress toward implementing the newly instituted Local Control Funding Formula. Under the Governor's proposal, ongoing K-12 per pupil expenditures would increase to \$9,667 in 2015-16, up from \$9,194 in the current year and up significantly from the

\$7,008 per pupil provided in 2011-12. Additionally, the Governor proposes to eliminate year over year deferrals in K-12 just as he does for the Colleges.

Conclusion

Clearly, this budget proposal reflects the strong rebound in state revenues – which have primarily benefitted the Proposition 98 guarantee – that has occurred since the passage of Proposition 30.

While the 2015-16 year appears to be a strong one for the California Community Colleges, we need to remember that districts will face substantial challenges in the coming years due to increases in the STRS and PERS employer contribution rates. Further, these increases will need to be addressed by colleges as Proposition 30 revenues phase out (the sales tax provision expires on December 31, 2016 and the income tax provision expires two years later). Moreover, many districts also face large OPEB liabilities. By proposing significant increases in discretionary resources, the Governor demonstrates his commitment to increasing local control while also providing districts with the funds they need to protect themselves for tougher times ahead.

We will provide more updates as they become available. Next steps include an analysis of the budget proposal by the Legislative Analyst’s Office, and a review by legislative committees. Revenues will be revised in May before a final budget is likely passed in June.

The following table summarizes the funding received in 2014-15 as well as the requests submitted for 2015-16 and the funding proposed in the Governor’s Budget. The Governor’s budget appears to be well aligned with the funding requests submitted for 2015-16.

Table 1. Community College Funding 2014-15 and Proposed 2015-16

Item	2014-15 Enacted Budget	2015-16 System Budget Request	2015-16 January Proposed Budget
Ongoing Funds			
Cost of Living Adjustment	\$47,300,000 (.85%)	\$125,000,000 (2.10% Stat. COLA)	\$94,400,000 (1.58% Statutory COLA)
Base Allocation Funding/ Rate Increase	No Augmentation	\$55,000,000 (requested in COLA BCP)	\$125,000,000
Enrollment Growth	\$140,400,000 (2.75%)	\$120,000,000	106,900,000 (2%)
Student Success and Support Program (SSSP)	\$100,000,000	\$100,000,000	\$100,000,000
Implementation of Student Equity Plans	\$70,000,000	\$100,000,000	\$100,000,000
Career Development and College Preparation (CDCP) Rate Equalization	2014-15 Budget approved increase starting in 2015-16.	Fully Fund	\$49,000,000

Apprenticeship Programs	No Augmentation	\$7,500,000 (Included under the Categorical Restoration BCP)	\$29,100,000
Mandate Backlogs	Included Under One-Time	Paydown	\$125,000,000 (in budget year funding)
Professional Development	No Augmentation	\$25,000,000	No Augmentation. However, may be able to use part of the \$125M mandate backlog funding for this purpose.
Funding for Full-Time Faculty	No Augmentation	\$70,000,000	No Augmentation. However, may be able to use part of the \$125M mandate backlog funding for this purpose.
Restoration of Categorical Programs	\$30,000,000 for DSPS	\$115,000,000 Requested to restore CCC categorical programs to the pre-recession levels.	\$29,100,000 for Apprenticeship
One-Time Funds			
Career Technical Education Enhancement Fund	\$50,000,000	\$25,000,000 On-going	No Augmentation.
Mandate Backlogs (Including: Maintenance, Instructional Equipment)	\$49,500,000	Paydown	\$226,000,000 from current year and prior year
Remaining Apportionment Deferrals	\$ 592,456,000	Paydown	\$94,500,000 (would eliminate system deferrals)
CTE (SB 1070)	\$48,000,000	N/A	\$48,000,000
Other			
Proposition 39	\$37,500,000	N/A	\$39,600,000
Adult Education	\$25,000,000 (for planning grants)	\$500,000,000	\$500,000,000