

SYSTEM BUDGET REQUEST FOR 2013-14

September 10-11, 2012

ACTION

Presentation: Dan Troy, Vice Chancellor of College Finance and Facilities Planning

Item 2.2

Issue

This item presents the proposed 2013-14 California Community Colleges System Budget Request for approval by the Board of Governors. The recommended increase in the system budget for 2013-14 totals approximately \$600 million to address three core priorities: restoration of categorical funding reductions; a cost-of-living-adjustment; and enrollment restoration. The request also proposes to accede to the governor's desire to pay down deferrals, but to do so over 10 years. In addition, we are requesting the use of any one time funds available from the state be used to meet deferred maintenance and instructional equipment costs and to pay any outstanding mandates.

The system request also suggests an alternative approach in the event the voters reject Proposition 30 in November. As the rejection of Proposition 30 would lead to midyear trigger reductions and reduced prospects for 2013-14 growth in the Proposition 98 guarantee, it is recommended that the alternate request be narrowed to \$200 million split equally between categorical restoration and cost-of-living-adjustment.

Background

California Education Code section 70901(b)(5)(A) directs the board to prepare and adopt an annual system budget request, using the consultation process established under state law. The budget request is focused on local assistance to the college districts that is funded under Proposition 98. The local assistance budget is distinct from the California Community Colleges Chancellor's Office budget—which is ineligible for Proposition 98 funds—and capital outlay budget, which is largely funded with bonds and is separately reviewed by the board. A budget workgroup, comprised of members and designees of the Consultation Council, other college representatives, and Chancellor's Office staff, first convened in June to form an outline of the budget request. Initial discussions from the workgroup were presented to the Board of Governors in July. The workgroup reconvened later in July to finalize recommendations. Further, the recommendations of the budget workgroup were discussed before the Consultation Council at its August meeting, and the proposed system budget request reflects a general consensus of Consultation Council.

Analysis

Broadly, both the workgroup and Consultation Council members voiced strong support for the restoration of categorical program funding and for cost-of-living-adjustment, thus, the consensus request identifies categorical restoration as priority 1a and cost-of-living-adjustment as 1b (similar to the 2011-12 prioritizations). While support was also voiced for restoring enrollment funding, this appeared to be a lesser, though still important, priority for most participants. As cost-of-living-adjustment and additional categorical funding help support student success efforts by increasing funding per student, we believe that the priorities expressed in the request reflect the board's emphasis on student success.

This request recognizes that restoring the system to its former levels of funding will require a multi-year commitment. By identifying a request more in range of potential Proposition 98 growth for the 2013-14 fiscal year, we believe this consensus request will better communicate our top funding priorities to the Department of Finance, the Governor's Office, and the Legislature.

The system budget request is summarized below with a longer, narrative document accompanying it under separate cover, titled 2013-14 System Budget Proposal:

Categorical Restoration of Student Support Programs (\$200,000,000)

The revised 2009-10 budget reduced ongoing funding for student support programs by \$313 million or an average of 42 percent. Cuts varied by individual program and ranged from no cut to total elimination. Many of these programs provide critical support services to students, such as counseling, orientation, and tutoring, which are vital in enhancing student success. Other categorical programs provide funding to support specific instructional programs, including basic skills and career and technical education. In order to preserve core student support services and instructional programs, we request that the state begin to reinvest in student services by providing \$200 million. To further the board's goals of ensuring student success, we request that \$50 million of this amount go toward the Student Success and Support Program (Matriculation, as recast by Senate Bill 1456). The remaining funds would be split proportionately among the other categorical programs. As part of this request, we are also seeking \$200,000 to fund the activities of the Student Senate for California Community Colleges associated with the shared governance responsibilities of our students.

Cost-of-Living-Adjustment (\$200,000,000)

Historically, the community colleges have received annual cost-of-living-adjustment increases. However, due to the deteriorating economic situation, the state did not provide cost-of-living-adjustments to the colleges beginning with the fiscal year 2008-09. The price index specified by law for the community college cost-of-living-adjustment calculation is identical to that specified for K-12 education, the state and local government price deflator published by the federal government. Cost-of-living-adjustments have not been received since 2007-08, and have now grown to a cumulative loss of purchasing power totaling 18.3 percent, or \$994 million. This represents a significant loss in purchasing power to the colleges, as they experience rising expenses in the form of utility bills and health care costs, among other expenses. While a \$200 million request represents only modest progress toward restoring colleges to the level of purchasing power they once had, this funding would help colleges maintain their ability to provide high quality education services to

California's community college students. We note that in the event the final cost-of-living-adjustment factor for the 2013-14 fiscal year would result in funding greater than \$200 million, we would ask for funding at that higher level.

Enrollment Growth/Restoration

(\$120,000,000)

Enrollment demand at the community colleges has reached unprecedented levels. Persistent unemployment of roughly 12 percent, students being displaced from the University of California and California State University due to budget cuts, veterans returning from Iraq and Afghanistan, and drastic reductions in K-12 adult education programs are straining the capacity of the community colleges to provide access. While the demand for a community college education is up, the funding provided by the state has not been sufficient to fund all students over the past several years, with overall funding actually declining in both 2009-10 and in 2011-12. In total, colleges have seen enrollment funding reduced by approximately \$450 million since the 2009-10 fiscal year. A request for growth funding of \$120 million would represent about a 2 percent increase, and would restore access to 26,000 more full-time equivalent students above current funding levels.

Deferral Reduction

(\$80,000,000)

In lieu of making even larger programmatic reductions within Proposition 98, the state has approved year over year funding deferrals. In short, this means that programmatic funding meant to be expended in the current year is not actually delivered to colleges until sometime after the start of the subsequent fiscal year. Deferrals greatly complicate the cash flow management at the local level, forcing many colleges to borrow to meet payroll and other obligations during the fiscal year. As of the 2011-12 fiscal year, \$961 million of the system's funding (about 17 percent) was deferred. Governor Brown has spotlighted Proposition 98 deferrals as a component of the state's wall of debt and has identified paying down deferrals as a top priority. The 2012 Budget Act provides nearly \$160 million in funding to reduce system deferrals to \$801 million (assuming the passage of Proposition 30). While we believe deferrals should ultimately be paid off, we do not believe that doing so should overwhelm other educational priorities important to the state and to the colleges, particularly in light of recent funding reductions and the great unmet need for student support and access. To this end, we propose paying off the deferrals over 10 years, at a cost of approximately \$80 million per year. This would ease borrowing costs for districts and retire a state obligation without unduly limiting the ability of the state to support student success and to increase access to higher education.

One-Time Funding Request

\$609,000,000

The system is requesting funding in three areas should one-time funds become available in the 2012-13 fiscal year. These areas include: \$200 million for deferred maintenance, \$109 million for instructional equipment and \$300 million for payment of outstanding mandates.

The deferred maintenance program's purpose is to keep the existing community college physical plant in operational condition and to prevent any degradation in instructional services caused by facility conditions. By properly maintaining our facilities and replacing major building components at their scheduled time – roofs, utilities, windows, etc. - we will extend the useful life of our buildings and we can focus more of our scarce capital outlay bond funds on meeting the system's growth needs. In addition, community colleges cannot adequately fund instructional equipment, library materials, technology, or workforce development upgrades. Funds for these vital programs

have been drastically reduced since 2008-09 due to the state zeroing out funding for the Instructional Equipment program. Finally, we are requesting funding of \$300 million to begin the process of paying down outstanding mandate claims and begin reimbursing college districts for costs they have incurred over the past several years to meet new laws and regulations promulgated by the state.

Recommended Action

The board approve the proposed 2013-14 System Budget Request for timely transmittal to the Department of Finance, Governor's Office, Legislature and other interested parties.

Staff: Diane Brady, Administrator, College Finance and Facilities Planning