Budget Update: 2013-14 Budget Approved by the Legislature

For the third year in a row, California has enacted an on-time budget. For the first time in years, the budget includes spending increases (rather than reductions) that do not include the threat of mid-year trigger cuts. The 2013-14 budget (AB 110), with the help of Proposition 30 and a slowly improving economy, substantially reinvests in education funding after years of painful retraction.

Just how well the economy is improving was a major subject of debate between the Governor and the Legislature after May Revision. The Legislative Analyst’s Office projected that revenues over the 2011-12 through 2013-14 period were $3.3 billion higher than those of the Department of Finance. Initially, the Legislature had ambitions to spend well above the amounts proposed by the Governor. The Governor held fast, though, and in the interest of getting an on-time budget, the legislature agreed to use the governor’s revenues with a promise to revisit expenditures in January if more revenues materialize. It is possible, then, that more resources will be available for one-time uses as the fiscal year progresses.

Education Highlights

Proposition 98 - For the 2013-14 fiscal year, K-14 Proposition 98 is funded at a total of $55.2 billion

K-12 - The 2013-14 budget approved by the legislature completely restructures the state’s K-12 school finance system. The new funding formula, referred to as the Local Control Funding Formula (LCFF), shifts decision making power and accountability to the local level. The LCFF limits the number of categorical funding allocations, and instead consists of base, supplemental, and concentration funding grants that allocate additional resources to the neediest schools based on student demographics.

UC/CSU - The 2013-14 budget includes $125.1 million General Fund increases for each of the UC and CSU systems. Both segments are also receiving $125 million in 2013-14 for holding tuition and fees flat in the 2012-13 academic year. Additionally, the 2013-14 budget shifts the UC’s general obligation and lease revenue bond debt service into its main support budget appropriation, to allow UC to issue its own debt for capital infrastructure and to restructure its State Public Works Board debt.

California Community Colleges

By enacting a budget that provides new funding for access, student success, and a cost-of-living-adjustment (COLA), the interests of the Governor and the Legislature appear to be well-aligned with those of the Board of Governors. The major components of the 2013-14 budget include:
$88 million increase in categorical funding:
  o $50 million for Student Success and Support (of this amount $14 million can be used for common assessment, e-planning and e-transcripts)
  o $15M for DSPS
  o $15M for EOPS
  o $8M for CalWORKs

$87.5 million for a COLA (1.57%)

$89.4 million funding to restore access (1.63%)

$25 million for adult education local planning grants. The 2013-14 budget provides $25 million to be distributed in the form of grants to local consortia consisting of at least one community college district and one K-12 district. Additional details regarding these planning grants and a framework for the future of adult education are likely to be determined in future legislation. The 2013-14 budget requires the Chancellor’s Office and the Department of Education to submit a joint report to the legislature and the governor by March of 2014 which includes the status of developing regional consortia across the state and the status of allocation of grant awards made to the regional consortia.

$47 million for energy efficiency activities related to Proposition 39. The 2013-14 budget states that these dollars are to be allocated in a manner determined by the Chancellor’s Office. District reporting requirements will be specified in trailer legislation. The Chancellor’s Office will be granted one additional FTE to carry out the workload and activities associated with proposition 39. An additional $3M will go toward the Energy Conservation Assistance Act (ECAA) revolving loan program administered by the California Energy Commission.

$16.9 million for the Online Education Initiative. These funds will be used by community colleges to enhance online education efforts, including the creation of a centralized Virtual Campus into a single hosting system, to enable students to find online courses and access 24/7 support through a common portal.

$30 million to pay down community college deferrals. This is a change from the May Revision which proposed to pay down $63.7 million in deferrals. System-wide deferrals will now total $592M – a major reduction form the $961M it was just prior to Proposition 30’s passage.

$30 million for deferred maintenance and instructional equipment. The 2013-14 budget provides $30 million for deferred maintenance. These dollars are specified as one time funds, though paid with budget year money.

$150k in funding for the Academic Senate. This restores the Senate to its 2008-09 funding level.

Establishes priority enrollment for CalWORKs participants.

The 2013-14 budget transfers oversight responsibilities for apprenticeship programs from K-12 to the Community Colleges.
**Conclusion: Positive Steps, but Significant Cautions Remain**

The 2013-14 budget approved by the legislature demonstrates that California is beginning to rebuild and is reinvesting in education after years of devastating cuts. California Community Colleges have the opportunity to restore access for approximately 40,000 students who have been shut out of the system and restore funding to vital programs and services that have seen major cuts over the past few years. The passage of Proposition 30 and the state’s more hopeful economic outlook has put us in a different position than in previous years; this opportunity should be used to address long-term priorities, such as supporting access and increasing the quality of services we provide to our students. We are grateful to the Governor and the Legislature for reinvesting in education so significantly for the first time in years.

There are some areas of caution, however. It should be made clear that Proposition 30 revenues are not permanent. The sales tax rate increase began this calendar year and lasts through 2016. The increase on upper-income income taxes began in 2012 and will last through 2018. So, unless the tax rate increases are extended at some later date, the state will begin to experience the loss of Prop 30 revenues in the 2016-17 fiscal year and those revenues will be completely gone as of the 2019-20 fiscal year. Districts need to understand the short-term nature of the Proposition 30 and exercise appropriate caution when expanding their budgets.

Further, there appears to be some confusion about what Proposition 30 does and doesn’t do. While the passage of Proposition 30 spared the community colleges even deeper cuts, it is not accurate to state that every dollar of Proposition 30 is “new” money. The 2012 Budget Act was adopted under the assumption that Proposition 30 would prevail at the ballot. The only true increases in funding for the 2012-13 fiscal year was $50 million for increased access and about $160 million in deferral buy down. Indeed, much of the funding appropriated to the colleges through the Education Protection Account (an account created in the initiative to collect and disburse Prop 30 revenues) replaces General Fund that would otherwise have supported our budget.

Finally, the general apportionment has been increasingly funded through resources other than the General Fund. Only a few years ago, the state apportionment consisted approximately of 60 percent General Fund, with the remainder a combination of local property taxes and student fees. The General Fund now makes up less than 40 percent of our apportionment. This means our budget is more reliant on estimated revenues (property tax, RDA allocations, fees, the Education Protection Account) rather than on Budget Act appropriations. When these revenue sources are short of estimates, districts may experience unanticipated deficits at the end of the year. Some of these resources have statutory backfill requirements (RDA and the Education Protection Act), but the amount of the backfill is subject to the Department of Finance’s determination. Further, the timing of the backfill may still result in significant cash flow problems for districts as funds may not be received until well after the fiscal year. The lack of a continuously appropriated general apportionment is increasingly problematic.