The Board of Governors of the California Community Colleges

PRESENTED TO THE BOARD OF GOVERNORS
DATE: September 9-10, 2013

SUBJECT: 2014-15 System Budget Request		Item Number: 2.2	
		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	X
		Information	

ISSUE: This item presents the proposed California Community Colleges System Budget Request for 2014-15 for approval by the Board of Governors.

BACKGROUND: 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 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 for 2014-15. Initial discussions from the workgroup were presented to the Board of Governors in July. The workgroup reconvened later in July to finalize recommendations. The recommendations of the budget workgroup were discussed before the Consultation Council in August, and the proposed system budget request reflects a general consensus of the process.

RECOMMENDED ACTION: It is recommended that the Board of Governors approves the proposed California Community Colleges System Budget Request for 2014-15 for timely transmittal to the Department of Finance, governor's office, Legislature and other interested parties.

ANALYSIS: Thanks to the passage of Proposition 30 and a slowly improving economy, the colleges are finally beginning to rebuild. The 2013-14 budget provided the colleges with significant increases balanced among access, student success, COLA, and the paying down of deferrals. Broadly, budget workgroup and Consultation Council members voiced support for continuing to advocate for the balanced approach that was successfully pursued in the 2013-14 fiscal year. This year's participants did feel strongly about emphasizing the need for the budget to advocate for student success and the quality of instruction, not just the quantity. To reflect this emphasis, the request identifies categorical restoration and an enhanced COLA as the top areas of investment for the system (similar to the 2013-14 prioritizations). As COLA and additional categorical funding help support student success and educational quality by increasing the funding per student, we believe that the priorities expressed in the request are consistent with the board's priority to pursue an agenda that supports the principles of the Student Success Task Force recommendations. Of course, support was also voiced for increasing access, and a significant request is included for that item.

This request recognizes that restoring the system to its former levels of funding is a multi-year commitment. In 2013-14, for the first time in five years, the state was able to reinvest in education, and it is crucial that we continue that reinvestment in 2014-15 and beyond, but we should not expect to reverse all of the reductions in just one or two years. By identifying a request more in range of potential Proposition 98 growth for the 2014-15 fiscal year, we believe this consensus request will better communicate our top funding priorities to the Department of Finance, the governor, and the legislature. The system budget request is summarized below with a longer narrative document accompanying it under separate cover, titled 2014-15 System Budget Proposal.

COLA ($240,000,000)

Historically, the community colleges have received annual Cost-of-Living-Adjustments (COLAs). However, due to California's economic situation, the state did not provide COLAs to the colleges for many years beginning with the fiscal year 2008-09. The price index specified by law for the community college COLA calculation is identical to that specified for K-12 education, the state and local government price deflator published by the federal government. No COLAs were received between 2007-08 and 2012-13. These forgone COLAs represent a significant loss in purchasing power to the colleges, as they have experienced rising expenses in the form of information technology, utility bills, health care costs, and other expenses, without corresponding funds to keep pace with those costs. This diminishes the ability of colleges to maintain the same level of services over time.

While the community colleges did receive a COLA in 2013-14 of $87.5 million (1.57 percent), this does not make up for the COLAs forgone from 2008-09 through 2012-13. Recognizing that the state cannot afford to restore the entire shortfall at once, we request an enhanced COLA of 4.4 percent ($240 million) in 2014-15, which is significantly above the estimated COLA for the year (1.80 percent). While this request represents only modest progress toward restoring colleges to the level of purchasing power they once had, this funding would significantly increase the ability of colleges to provide high quality education services to California's community college students and provide them with additional flexibility to meet local needs.

Categorical Restoration of Student Support Programs ($150,000,000)

Budget cuts to categorical programs in recent years have averaged around 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 to the success of students. Other categorical funding is used to support specific instructional programs, including basic skills and career and technical education. In 2013-14, some categorical programs including the Student Success and Support Program (formerly Matriculation), EOPS, DSPS, CalWORKS, and the Academic Senate received much needed funding increases allowing the community colleges to begin the process of rebuilding these programs, but other categorical programs did not receive any augmentations. In order to preserve core student support services and increase to overall quality of education provided to our students, we request that the state continue the process of reinvesting in student services by providing $150 million for categorical student support programs in 2014-15. 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, Lowenthal). We request that approximately $5 million be allocated for professional development (for staff and faculty) and that the remaining funds would be split proportionately among the other categorical programs. Similar to recent years, we will also seek additional funds to support the shared governance activities of the Student Senate for California Community Colleges.

Access/Enrollment Funding ($110,000,000)

While the system is strongly focused on success, we must also keep in mind the need to meet the demand for our services. The need for community college access remains strong based on a number of factors. Persistent unemployment, students displaced from UC and CSU due to budget cuts and increasing cost of attendance, veterans returning from Iraq and Afghanistan, and drastic reductions in K-12 adult education programs all contribute to the need for community college courses. While the demand for community college education is up, the funding provided by the state has not been sufficient to fund all students over the past several years. In total, the colleges saw enrollment funding reduced by approximately $450 million between the 2009-10 and 2011-12 fiscal years. In 2013-14, the colleges received $89.4 million (1.63 percent) to begin to rebuild access lost over recent years, but this is a small step toward restoring access to the level it once was. For 2014-15, we are requesting $110 million (about 2 percent) to provide access for approximately 50,000 more students.

Deferral Reduction ($100,000,000)

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. Since the passage of Proposition 30, the state has made significant progress toward paying down this debt. As of the 2013 Budget Act, the deferrals have been reduced from $961 million to approximately $592 million. We are requesting $100 million for the pay down of deferrals in 2014-15. This request would keep us roughly on pace to retire all of the system deferrals before the expiration of Proposition 30.

One-Time Funding Request

The request proposes funding in three areas should one-time funds become available during the 2013-14 or 2014-15 fiscal years. Our top priority for one-time funding is deferred maintenance and instructional equipment. Other priorities for one time funding include: professional development and payment of unfunded mandates from prior year claims.

The colleges have identified in their 5-year capital outlay plans submitted to the Chancellor’s Office over $200 million in deferred maintenance costs per year. 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. While we believe this item should be funded annually in the budget, we believe there is likely to be significant one-time funds available during the fiscal year and would be content to use a share of those funds for this purpose.

We are also requesting one time funding for professional development and payment of unfunded mandates. There is a direct correlation between the level of resources devoted to professional development of faculty and staff and the rates of student success in community colleges. Without sufficient resources allocated to training of new and existing faculty and staff we cannot expect to offer students the quality of service and instruction they will need to succeed. Professional development will help ensure successful implementation of the student success reforms endorsed by the board. Additionally, paying down unfunded mandate claims from prior years is important as these mandates forced college districts to incur additional costs to meet laws and regulations promulgated by the state, they should be reimbursed for these costs as funding becomes available. The state owes the colleges several hundred million dollars in funding for prior mandated activities.

Request for a Continuous Appropriation

While not a request for a specific funding augmentation, the need for a continuous appropriation may be as or more important to the stability of funding for the California Community Colleges as access, COLA, or categorical funding. Simply put, our general apportionment budget is now predominantly based on estimated revenues at the time the annual budget is approved rather than on general fund actually appropriated. In the 2008-09 fiscal year, about two-thirds of our funds were appropriated in the annual budget act. That amount has shrunk to about one-third as of the 2012-13 budget. To the extent estimated revenues do not materialize as anticipated, the colleges face a funding deficit at the end of the year with no time to adequately adjust to the shortfall, and the exposure to this risk has never been higher.

We have long faced risk due to shortfalls in property taxes and fee revenues (e.g., a deficit of $90 million relating to fee revenues was absorbed in the 2011-12 fiscal year), but this risk has been greatly increased in recent years due to increased reliance upon property taxes, funds from the Proposition 30 Education Protection Account (EPA), and revenues resulting from the dissolution of redevelopment agencies (RDAs). While we have gained the promise of statutory backfills for redevelopment agencies and EPA revenues, we have found that this process for determining the amount to be backfilled is riddled with uncertainty due to a confusing array of conflicting local reports. For one example, Proposition 30 required at least $100 per FTES of Education Protection Account funding go to every district. This means we need to fund basic aid districts beyond their local property taxes and fee revenues, but were given no funds to do so. This has resulted in a deficit of over $9 million.

Also, as of this writing, our office is engaged with the Department of Finance in a process of attempting to reconcile various RDA reporting discrepancies among the districts, the county auditor-assessors, and the county offices of education. All the while, districts are having difficulty closing their books as they do not know the extent of the backfill funding they will ultimately receive. Regardless of the outcome, districts should not have to face this level of uncertainty.

Additionally, our system is not always adequately funded to meet the statutory and regulatory funding provisions that apply to our 72 districts. Projecting how many districts will make use of three year restoration provisions and to what extent, for example, is not perfectly predictable. With no room provided in our budget for these circumstances, we can face deficits even if there are no revenue shortfalls.

Colleges should know how much money they have to spend, and currently, this is not the case due to the factors discussed above. For this reason, we believe now is the time to pursue a continuous appropriation for the system.

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