New Funding Proposals Put Forth in the May Revision

- $50M is added to 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.
- $42.4M is added to offset decreases in local property tax and fee revenue estimates for the 14-15 year.
- $6M for increased technology infrastructure ($1.4M one-time, $4.6M ongoing) to improve the reliability of internet connectivity and replace technology equipment at local campuses

Slight Changes to Access Funding and COLA

- A decrease of funding for access by $14.8M to reflect a change from 3 percent to 2.75 percent in funds for new access for the 2014-15 fiscal year. Additionally, the Governor will push back the implementation of a revised growth formula until the 2015-16 fiscal year.
- A decrease of $1.2M to reflect a drop in the statutory COLA from 0.86 percent to 0.85 percent.

Deferred Maintenance and Instructional Equipment

- All funds will go toward deferred maintenance, rather than a 50/50 split with instructional equipment
- Decreases funding for deferred maintenance and instructional equipment from $175M to $148M
- Eliminates the local match for the 2014-15 fiscal year

Proposition 39

Due to a lower revenue forecast for the California Clean Energy and Jobs Creation Act, the May Revision includes a decrease of $1.5M for Proposition 39 projects/workforce development, reducing funding for this purpose to $37.5M in 2014-15. The decision of how to split these funds between energy efficiency projects and workforce development is left to the Chancellor’s Office.

CDCP Funding Rate

The May Revise proposes to increase the funding rate for Career Development and College Preparation (CDCP) courses to equal the funding rate for credit courses. The change would take effect beginning in 2015-16. The purpose of instituting this change in 2015-16 is to allow the colleges one year to plan before the rates change.

Deferral Retirement Adjustments

Given the increased revenue projections for 2013-14, the Governor’s May Revision modifies the plan to pay off community college deferrals by shifting a greater amount to the current year, and decreasing the amount paid in the prior year and budget year. The changes are summarized below:
• A decrease of $55.5M in the prior year
• An increase of $133.6M in the current year
• A decrease of $78.1M in the budget year

While there are adjustments of payments among the three fiscal years, the net result is still a complete pay down of system deferrals as of the 14-15 fiscal year.

**Governor’s Push for Fiscal Prudence**

The Governor is emphasizing the need for fiscal restraint amid many calls for greater spending and restoration of general fund programs that were negatively impacted during the Great Recession. Rather than spending all the increased revenue that has buffered the state since the passage of Proposition 30 and an improving economy, Governor Brown had cautioned voters and legislators about the need to address the “Wall of Debt” in lieu of expanding services in a way he believes would be unsustainable. The Governor’s May Revision includes two proposals that demonstrate the Governor’s goals of building reserves and paying down debts:

**CalSTRS**

Perhaps the most significant change in the Governor’s May Revision is the addition of a proposal to fully pay the $74 billion in unfunded CalSTRS liabilities over the next 30 years. Under the Governor’s proposal, these costs would be shared, with the state paying approximately 20 percent, teachers paying 10 percent, and the remaining 70 percent would be the responsibility of schools and community colleges.

The Governor proposes a 1.25% increase to the employer contribution rate in the 2014-15 fiscal year and annual increases of 1.61% thereafter until the rate reaches 19.1% in the 2020-21 fiscal year. The increased cost to colleges in 2014-15 is estimated at $28 million and the cost could grow to over $300 million when the rate ultimately reaches 19.1%. While it is certainly true that the state needs to address the long-term liability, increased obligations act as a negative COLA on district budgets. In whatever agreement the Legislature and the Governor come to concerning this issue, we believe there should be a corresponding plan to structure CCC budgets so that it can accommodate these significant new costs.

**Rainy Day Fund**

Governor Brown and others have long expressed concern about the “boom and bust” state budget cycles owing to the volatility of the state’s capital gains revenues. To address this issue, the Governor stated his intent in January to modify the “Rainy Day Fund” ballot initiative scheduled for the ballot this November in a way that increase the state’s budget reserves, make progress toward addressing liabilities and “smooth” out budget expenditure cycles, including Proposition 98. This push led to last week’s unanimous passage of ACAx2 1, which contains these significant features:
• As of 2015-16, require the Controller to annually transfer 1.5% of state General Fund revenues to a revised Budget Stabilization Account (BSA), until the BSA is equal to 10% of state general fund revenue

• Require that half of the transferred amount be used to retire specified state obligations (e.g., public school liabilities, pension obligations)

• Create a Proposition 98 reserve by diverting capital gains revenues that exceed 8% of general fund reserves, under certain circumstances

• Transfer funds from the Proposition 98 reserve to K-14 schools to fund growth and COLA for years in which the minimum guarantee declines

Legislative Analyst’s Office Revenue Projections

The Legislative Analyst’s Office released their response to the Governor’s May revision on May 16, 2014. Similar to last year, the LAO’s projections are more optimistic than those of the Governor. The LAO projected that revenues over 2011-12 through 2014-15 are $2.5 billion higher than the estimates made by the Department of Finance, with most of that increase attributable to the budget year. The legislature may choose to go with the LAO’s higher revenue projections as they are crafting their budget, which could add up to a nearly $250M increase to CCC budgets for the 2014-15 fiscal year. However, as we saw last year, the Governor Brown will strongly resist a budget that uses higher revenue estimates than those put forth by the Department of Finance.

CONCLUSION: This week, the Legislature will hold budget subcommittee hearings to review the Governor’s proposals and take action to adopt a budget that reflects the priorities of each house. It is probable that the legislature will make changes in funding for the Governor’s proposals as they look to fund their own priorities. Next, a joint legislative conference committee will meet to begin the process of sorting out differences between the two houses and craft a final budget to be submitted to the Governor for approval. It is likely that a final budget will be signed by June 30, 2014.