



The Board of Governors of the California Community Colleges

PRESENTED TO THE BOARD OF GOVERNORS

DATE: September 9, 2014

SUBJECT: 2015-16 System Budget Request		Item Number: 2.1	
		Attachment: Yes	
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 2015-16 California Community Colleges System Budget Request for consideration and approval.

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 community 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 identify the top budget priorities and begin planning for the California Community Colleges system’s 2015-16 budget request. Initial discussions from the Workgroup were presented to the consultation Council as well as the Board of Governors in July. The Workgroup reconvened in later in July to finalize recommendations and the proposed 2015-16 System Budget Request reflects a general consensus of the process.

RECOMMENDED ACTION: It is recommended that the Board of Governors approve the proposed 2015-16 System Budget Request for timely transmittal to the Department of Finance, Governor’s Office, Legislature and other interested parties.

ANALYSIS: Thanks to the increased revenues generated by Proposition 30, and a state economy that is continuing to improve, the California Community Colleges system is growing after years of reductions. The 2014-15 Budget provided the system with significant increases balanced among access, student success and equity, a funded cost of living adjustment (COLA), maintenance and instructional equipment, and the reduction of system deferrals. Broadly, Workgroup and Consultation Council members voiced support for continuing to advocate for the balanced approach that was successfully pursued in the 2014-15 fiscal year. This year's budget workgroup participants strongly expressed the need to advocate for budget priorities that will work to improve the *quality* of education (not just the *quantity* of courses offered) and facilitate increased student success, particularly for disadvantaged students that may be less likely to succeed without additional support.

To reflect an emphasis on access, educational quality and student success, the 2015-16 budget request identifies four core priorities for funding: increasing access for community college students; funding for student success and equity; a COLA; and funding to hire more full-time faculty which were significantly reduced during the recent economic downturn. 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. The system budget request is summarized below with a longer narrative document accompanying it under separate cover, titled *2015-16 System Budget Proposal*.

Access/Enrollment Funding

(\$120 million)

Restoring access to higher education for those who need it remains a major system priority. The 2014-15 budget featured a large increase for access (2.75 percent), which is enough funding to restore approximately 60,000 students (headcount) to the system. The need for community college access remains strong based on a number of factors. Students displaced from University of California and California State University due to budget cuts and the high cost of attendance, an economy in slow recovery, veterans returning from Iraq and Afghanistan, and drastic reductions in K-12 adult education programs all contribute to the need for community college courses.

For 2015-16, we are requesting \$120 million (approximately 2 percent) for increased access so that colleges may continue to restore course offerings that were reduced during the budget cuts of the last several years. The colleges will focus on adding courses that align with the system's primary missions of transfer, career technical education, and basic skills. Since districts in some areas of the state are growing while other areas are having trouble increasing enrollments, it is important that the request for access funding be balanced with other funding requests to ensure that all districts have a chance at new funding to increase educational quality and improve student success. \$120 million would restore access for over 50,000 students.

Student Success and Student Equity

(\$200 million)

The 2014-15 budget increased funding for the Student Success and Support Program (SSSP) by \$100 million, bringing total annual funding for this program to approximately \$200 million. The SSSP provides support to students through services such as orientation, assessment, placement educational planning, counseling, and tutoring. For many community college students, these support services are the difference between an efficient pathway to an educational objective (such as a certificate, degree, transfer, or desired skill) and an unproductive pathway to a delayed or inconclusive end.

In addition to increasing funding for the SSSP, the 2014-15 budget provided \$70 million in new funding to be used to provide increased support for underrepresented students based on districts' student equity plans. The purpose of the student equity funds are to allow districts to close gaps in access and achievement for underrepresented student groups, as identified in district Student Equity Plans. Based on allocation formula currently under development, districts with a greater proportion of disadvantaged students will receive a larger funding allocation than comparably sized districts with a smaller proportion of disadvantaged students.

For 2015-16, the system is requesting \$200 million for student success and student equity to be split between the two programs. The SSSP and funding for student equity are critical to student success and to increasing the quality of education provided to community college students. For many community college students, especially those from disadvantaged backgrounds, these services—or the lack thereof—can represent the difference between educational success and educational failure.

Increase for General Operations

(\$180 million)

Historically, the community colleges have received annual COLA increases. 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 foregone 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. Further, Assembly Bill 1469 recently set in place a schedule of significant rate increases for college contributions to the California State Teachers' Retirement System (CalSTRS). Without help, these rate increases will absorb district general fund resources. When expenses increase over time and the funding per student remains the same, the quality of education provided to students is diminished.

The statutory COLA for 2015-16 is estimated by School Services of California to be 2.10 percent which equates to approximately \$125M in funding for the California community colleges. The system is requesting that the state fund the COLA plus an additional \$55 million for a total increase of approximately \$180 million. This increase would restore some of the purchasing power lost in years when no COLA was received, address the increase in CalSTRS obligations, and help colleges provide the qualitative educational services that students deserve.

Funding for Full-Time Faculty Hiring

(\$70 million)

During budget negotiations for 2014-15, there was considerable discussion about adding funding to support hiring of full-time faculty. Members in the legislature seemed generally supportive of the idea, but unsure about how it should be structured and where it would fit into the budget.

For 2015-16, we are requesting \$70 million to be used by the districts to hire additional full-time faculty. Funding allocated for full-time faculty hiring would be included in the general apportionment, and districts would have varying requirements for full-time faculty hiring depending on their status in relation to the current percentage of instruction provided by full-time faculty. Those with a lower percentage of instruction being provided by full-time faculty would be required to hire a greater number full-time faculty than districts that already have a high percentage of instruction being provided by full time faculty.

Research has shown that having more full time faculty is positively correlated with student success and educational quality. Full-time faculty benefit students, as well as the colleges; they provide critical services such as academic advising of students during faculty office hours, ongoing curriculum development, and faculty participation in institutional planning and governance. For districts, hiring additional full-time faculty represents a substantial ongoing cost commitment. Historically, districts have relied on enrollment growth funding to hire new full-time faculty, adding full-time faculty at a rate proportional to the rate of change in funded full-time equivalent student (FTES), however, this method does not generate sustained progress toward the 75 percent goal.

We also recognize the importance of part-time faculty to student success and educational quality, and that issue is addressed in the next section.

Restoration of Categorical Programs**(\$115 million)**

For 2015-16, we are requesting \$115 million to restore funding of categorical programs. Some of the categorical programs including the Extended Opportunity Programs and Services (EOPS), the California Work Opportunity and Responsibility to Kids (CalWORKS), the Basic Skills Initiative, and others, serve the most at-risk students and are critical to their success in college. We are requesting that these programs be restored to the level of funding they were receiving prior to the budget cuts that occurred during the economic downturn. These programs provide additional support over the services provided by the SSSP and focus specifically on students that are less likely to be successful in college absent additional resources.

In addition to providing support to the most at-risk student populations, a portion of this \$115 million will go toward the categorical programs for part-time faculty including compensation, health insurance, and office hours, which were reduced by more than 50 percent in recent years. Community colleges have historically hired part-time faculty to meet community needs. Part-time faculty can provide hiring flexibility, and often fill voids created by unanticipated enrollment growth. Increasing funding for these programs to support part-time faculty is critical as it allows them to be more available to students increasing the quality of education and students success.

Professional Development**(\$25 million)**

For 2015-16, we are requesting \$25 million to be used for professional development of faculty and staff in the areas of basic skills, lower division, transfer, and other local initiatives to advance student success.

Research has identified a correlation between the level of resources devoted to professional development of faculty and staff and the rates of student success in community colleges. It is anticipated that faculty turnover over the next decade will be high as baby boomers exit the workforce. Colleges will need to hire new faculty to meet expanding enrollments, which will create a sizable need for professional development.

Technology has changed the way in which we approach many aspects of teaching, particularly in the traditional sciences, and academic and vocational pedagogical programs. Additionally, some major changes are occurring in the system due to the increased use of distance education, changes in adult education, implementation of student success activities, and the new Senate Bill 1440 degrees. Without sufficient resources allocated to training of new and existing faculty and staff, we cannot expect them to be fully prepared to offer the quality of service and instruction required to ensure student success.

Economic and Workforce Development Program**(\$25 million)**

The 2014-15 budget included \$50 million in one-time funding for the Economic and Workforce Development program to improve student success in career technical education. For 2015-16 we are requesting an ongoing increase of \$25 million for this program. The funds would be used to develop, enhance, and expand quality Career and Technical Education programs that build upon existing regional capacity to better meet regional market demands. Career and Technical Education is one of the primary missions of the system and is a high priority for the governor and the legislature, and it is reasonable that the budget reflect that priority.

Technical Assistance

The 2014-15 budget provided \$2.5 million in funding for local technical assistance and \$1.1 million in support for Chancellor's Office as part of the next phase of implementation of the Student Success Initiative. The local assistance funds will be available to districts in need of support for implementation of student success plans, basic skills programs, or to address other fiscal, support, or programmatic issues. Our request is to increase this appropriation to \$5 million to further expand resources available to help districts in their efforts to support student success. Also, the Chancellor's Office will request additional funding and position authority to adequately resource the office to set goals and standards, monitor progress, and provide support to districts.

Public Outreach**(\$1.5 million)**

The Chancellor's Office conducts a statewide outreach and marketing campaign to inform residents that community colleges are affordable and accessible and that financial aid is available to pay for enrollment fees and help with other costs associated with attendance. Since its inception in 2004-05, funding for the "I Can Afford College" campaign has remained at \$2.8 million per year. Since funding for the campaign has remained stagnant, the purchasing power for advertising and outreach efforts to inform students of available financial aid has eroded significantly. As expanding access and increasing transfers to other higher education segments is a high priority for the state, this campaign is critical to informing students of resources available to allow them to attend and succeed in college.

For 2015-16, we are requesting an additional \$1.5 million for the "I Can Afford College" campaign; which would bring the total annual funding to \$4.3 million. This increased funding would restore purchasing power and allow the campaign to resume outreach in markets that were cut from the campaign due to cost, including Spanish language marketing.

One-Time Funding Request

The 2015-16 request proposes funding in two areas should one-time funds become available. Our top priority for one-time funding is deferred maintenance and instructional equipment, and our second priority is funding for past mandate reimbursement claims.

The colleges have identified in their 5-year capital outlay plans submitted to the Chancellor's Office over \$200 million in annual deferred maintenance costs. The purpose of the deferred maintenance program 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 deferred maintenance and instructional equipment is worthy of ongoing funding in the budget, we estimate 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 payment of unfunded mandates. Paying down unfunded mandate reimbursement 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. This funding would be helpful to districts as they are dealing with the increasing employer contribution rates for the California State Teachers' Retirement System and the California Public Employees' Retirement System. According the most recent report from the State Controller's office, community college districts are owed over \$260 million in prior claims.

Restore Cal Grants to Better Serve Community College Students

While Cal Grant funding is not part of the California Community Colleges' budget, it is clear that recent reductions in the amounts of Cal Grant funds available had a negative impact on our students. Two-thirds of California's higher education students are attending a California community college, however, only six percent of the total funding awarded by the Cal Grant program goes to community college students. This funding disparity reduces the ability of community college students to take more classes, increasing the time it takes to obtain a degree.

To help our students achieve their educational goals and ultimately increase the number of bachelor degrees in this state, we encourage the state to reinvest in Cal Grant B and C awards.

Cal Grant B awards help students with costs necessary to go to college other than tuition, such as transportation, books, supplies, housing costs or food. These “access” costs are becoming an increasingly larger share of a community college student’s budget and the current award is inadequate to cover them. Cal Grant C awards are competitive grants that go to very low-income students who were not able to obtain an entitlement Cal Grant. Given the importance of the state’s need to support equity *and* access, we urge an increase in Cal Grant funding in the 2015-16 budget.

Request for Guaranteed Revenue Backfill

While not a request for a specific funding augmentation, the need for guaranteed revenue backfill 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 2013-14 budget. To the extent estimated revenues do not materialize to the extent 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 Education Protection Account (Proposition 30), and revenues resulting from the dissolution of redevelopment agencies (RDAs). While we have gained the promise of statutory backfills for RDA and the Education Protection Account (EPA) revenues, colleges continue to suffer from uncertainty in backfill timeframes or from property tax and fee revenue shortfalls .

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 3-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 process of guaranteed backfill for the system to bring certainty to district budgets and provide increased truth in state budgeting.

Staff: Diane Brady, Administrator, and Natalie Wagner, Fiscal Analyst, College Finance and Facilities Planning