



# The Board of Governors of the California Community Colleges

PRESENTED TO THE BOARD OF GOVERNORS

DATE: July 20, 2015

SUBJECT: Overview of the Enacted 2015-16 Budget		Item Number: 3.1	
		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	
		Information	X

**ISSUE:** This item presents an overview of the 2015-16 budget approved by the Legislature as it relates to the California Community Colleges.

**ANALYSIS:** On Wednesday, June 24th, the Governor signed a \$115.4 billion (General Fund) budget for the 2015-16 fiscal year. The agreement ends a relatively short negotiation wherein the Legislature argued to expend at the higher revenue level estimated by the Legislative Analyst’s Office (LAO). As we’ve seen in recent years, the Governor held the line on basing the budget on the more conservative estimates of the Department of Finance, arguing for a more cautious growth in expenditures for fear of boom and bust budget cycles. Highlights of the budget package include significant increases for K-14 education due to rapid growth of the Proposition 98 minimum guarantee, increases for the University of California and California State University, creation of a state Earned Income Tax Credit, and a commitment of approximately \$1.8 billion toward drought relief. The budget includes a reserve for economic uncertainties of \$1.1 billion and also provided a “Rainy Day Fund” of \$3.5 billion. **(Analysis Continued)**

**RECOMMENDATION:** This item is presented to the Board of Governors for information and discussion.

### ***(Analysis Continued)***

#### **Proposition 98**

K14 education has been the prime beneficiary of the increased revenues of the past few years, largely due to the requirements of the Proposition 98 minimum guarantee. Since the 2011-12 fiscal year, the guarantee has increased from a low of \$47.3 billion to the \$68.4 billion budgeted for the 2015-16 fiscal year. A major reason for this growth has been the “maintenance factor” – a provision in the guarantee that requires the state to catch up with funding for schools rapidly when state revenues recover subsequent to low-funding years for schools.

Due to the maintenance factor, which had grown to over \$11 billion during the economic downturn, a high proportion of the new money that has flowed into the state treasury is obligated for K14 schools. While this has been good news for K12 and California community college districts, it has frustrated some in the Legislature and advocates for other priorities funded by the state who have hoped to restore other areas of government hit hard during the recession. As the outstanding balance of the maintenance factor is down to \$772 million, we should not expect funding increases at the same rate even if overall state revenue growth remains strong.

#### **Budget Details - California Community Colleges**

The enacted 2015-16 budget continues the state’s reinvestment in public education, with significant funding augmentations for the California Community Colleges. Specifically, the 2015-16 budget provides new funding for access, a cost of living adjustment (COLA), student success and equity, Career Technical Education (CTE), and other system priorities. Major components of the 2015-16 budget include:

- \$266.7 million in general operating expense funding
- \$156.5 million for increased access (approximately 65,000-70,000 more students)
- \$61 million for the statutory 1.02% COLA
- \$632 million to pay down prior year mandate claims. \$515 million of this money is attributable to the 2014-15 and 2013-14 years. The funds will be distributed one-time on a per-FTES basis.
- \$200 million increase to the Student Success and Support Program, including \$100 million for matriculation and counseling services, an \$85 million increase for Student Equity Plans, and a \$15 million increase for Institutional Effectiveness Partnership Initiative
- \$33.7 million to restore EOPS to pre-recession levels of funding
- \$70M in 1-time funds for issues related to basic skills. This includes \$60 million for the Governor’s Basic Skills and Student Outcomes Transformation Program - a grant program aimed at improving /expanding evidence-based practices in basic skills education. The budget further provides \$10 million for the Basic Skills Partnership Pilot Program. This is an effort to enhance coordination among high schools, community colleges, and CSU to better prepare incoming CSU students for college work.
- \$63.3 million to increase the number of full-time faculty

- \$148 million for deferred maintenance, instructional equipment, a drought response activities
- \$38.7 million to fund projects and workforce development related to energy efficiency and sustainability related to Proposition 39
- \$6 million to aid local implementation of the SB 850 baccalaureate pilot programs
- \$39 million for financial aid support for Cal Grant B recipients who are taking 12 or more units. An additional \$3 million is provided to help districts implement this new program.

An attachment to this item provides a table detailing final budget actions in relation to the Board's 2015-16 System Budget Request. As you can see, the Board's requests were well represented in the final budget.

### **Inmate Education and the Veterans Nonresident Tuition**

- Language included in the budget bill would declare the intent that the Chancellor identify districts willing to utilize a total of \$5 million of funding for the purpose of providing adult inmate education. The language further notes that these districts would then be eligible to receive a 1 to 3 match of private donations dedicated for this purpose.
- Trailer legislation associated with the budget would conform state law to the Federal Veterans Access, Choice and Accountability Act (VACA) of 2014. VACA requires the US Dept. of Veterans Affairs to disapprove programs of education eligible for GI Bill benefit programs if those institutions charge qualifying veterans and dependents tuition in excess of the in-state rate as of July 2015. This language would alter state law such that qualifying veterans would not be subject to nonresident fees even if they do not meet resident status. It further clarifies that districts could claim apportionment for these students, thus holding them harmless from costs of instruction.

### **Adult Education**

The final budget includes \$500 million for an adult education block grant. Funds will be distributed in a block grant to local consortia that must consist of at least one K12 district and one community college district. For the 2015-16 year, a maximum of \$375 million of these funds are intended to maintain recent levels of expenditures on adult education, with the remainder to be allocated through a need-based formula to be jointly developed by the Chancellor's Office and the Superintendent of Public Instruction. The budget also provides \$25 million for the development or improvement of local district data systems necessary to track students and monitor performance. More information on adult education is provided in another item on the agenda.

**CONCLUSION:** Overall, we are very pleased to see the Governor and Legislature provide a budget so clearly supportive of community college access and success. These resources will aid us as we continue to recover from the devastating reductions of the economic downturn. Those funding reductions forced colleges to cut course sections, turn away hundreds of thousands of students, reduce crucial student support services, and tighten operational budgets, all the while dealing with new proposals to extend our reach, through the development of transfer degrees, the offering baccalaureate degrees, to increase distance education courses, and other important initiatives.

Even with this good budget news, it is important to remember that the colleges have not yet fully recovered from the economic downturn. We have not yet been funded to completely restore student access, and college operational budgets are still approximately \$750 million behind where we were before the recession, accounting for inflation.

Further, college budgets will face additional stresses in the coming years, as PERS and STRS obligations are scheduled to increase rapidly and the state faces the sunset of Proposition 30 revenues. Given these circumstances and our knowledge of the volatility of the state's revenue system, we suggest that districts plan carefully now so they are prepared to meet the challenges ahead. Overcommitting these funds to ongoing concerns this year could result in problems in future years when payments for the PERS and STRS contributions come due and the state faces another economic downturn.