





The Board of Governors of the California Community Colleges

PRESENTED TO THE BOARD OF GOVERNORS

DATE: September 21, 2015

SUBJECT: 2016-17 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 2016-17 California Community Colleges System Budget Request for approval of 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 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 CCC system’s 2016-17 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 later in July to finalize recommendations, and the proposed 2016-17 System Budget Request reflects a general consensus of the process.

RECOMMENDATION: The Board vote to approve the proposed 2016-17 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 2015-16 Budget Act provided the system with historic increases well balanced among access, student success and equity, institutional effectiveness, increases for general operating expenses, funding to hire additional full-time faculty, EOPS, maintenance and instructional equipment, basic skills, and the elimination of system deferrals. Broadly, while participants supported a balanced approach (including additional discretionary funds) that would support the needs of 21st century institutions of higher education, the particular importance of pursuing funds that would support recommendations from the Task Force on Workforce, Job Creation, and a Strong Economy was acknowledged.

To reflect an emphasis on funding needs for access, educational quality and student success in a modern educational setting, the 2016-17 budget request identifies the following priorities: increasing access to community college; support for Workforce needs; increased funding for general operating and information technology expenses; funding to hire more full-time faculty; and student success and equity. The system budget request is summarized below with a longer narrative document accompanying it under separate cover, titled *2016-17 System Budget Proposal*.

Access/Enrollment Funding

(\$175 million)

Restoring access to higher education for those who need it remains a major system priority. Both the 2014-15 and 2015-16 budgets included large increases for access (2.75% and 3%, respectively), which is enough funding to restore approximately 60,000 students (headcount) to the system in 2014-15 and 70,000 in 2015-16. Still, the need for community college access remains strong based on a number of factors. Students displaced from UC and CSU due to budget cuts and increasing cost of attendance, an economy in slow recovery, veterans returning from Iraq and Afghanistan, and the closure of several for-profit institutions (e.g., the Corinthian schools) all suggest a need for more access to CCCs.

For 2016-17, we are requesting \$175 million (approximately 3%) for increased access so that colleges may continue to restore course offerings that were reduced during the budget cuts of the last several years. Our expectation is that 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 gain new resources to improve educational quality and increase student success. \$175 million would restore access for approximately 70,000 students.

Task Force on Workforce, Job Creation & a Strong Economy

(\$200 million)

To address a projected shortfall in middle-skill workers, the Board of Governors commissioned the Task Force on Workforce, Job Creation & a Strong Economy in November 2014. The task force met over a period of nine months, receiving input from over 1,200 stakeholders, and developed a series

of recommended strategies, policies and practices to meet the state's anticipated shortage of one million industry-valued, middle skill credentials.

In November of 2015, the 25 recommendations of the Task Force will be put forth to the Board for adoption. The recommendations target actions that can be taken to provide policy guidance, regulatory review, and legislative and budgetary actions with the goal of increasing the number of students obtaining CTE degrees, certificates, and credentials crucial for closing California's skills gap. These recommendations build upon current system efforts on student success and aim to close the gap in 1 million more industry-valued middle skill credentials. The Task Force recommendations are grouped into these issue areas: Student Success; Career Pathways; Workforce Data & Outcomes; Curriculum; CTE Faculty; Regional Coordination; and Funding.

\$200 million of new funds is being requested in the 2016-17 budget to support the implementation of these recommendations. The funds will be used as specified by recommendations #22 and 23:

22. Establish a sustained, supplemental funding source to increase community colleges' capacity to create, adapt, and maintain quality CTE courses and programs that are responsive to regional labor market needs.
 - a. Target funding to offset the high cost of CTE programs and other courses that lead to CTE programs.
 - b. Provide additional fiscal incentives to support high-value outcomes and continuously evaluate the results to determine effectiveness.
 - c. Develop and support a sustainable and adequate equipment and facilities funding stream.
23. Create a separate, predictable, targeted, and sustained funding stream that leverages multiple local, state, and federal CTE and workforce funds to support an infrastructure for collaboration at the state, regional and local levels; establish regional funding of program start-up and innovation; and develop other coordination activities.

Student Success/Categorical Funding

(\$105 million)

Many important categorical programs that were cut in 2009-10 have not been restored to their former levels of funding. These programs are critical to student success and to increasing the quality of education provided to community college students. For many students, especially those from disadvantaged backgrounds, these services—or the lack thereof—can represent the difference between educational success and failure.

The 2015-16 budget provided support in some key areas. The EOPS program was augmented by \$33M, restoring funding back to pre-recession levels. The Student Success and Support Program (SSSP) was increased by \$100 million, bringing total annual funding for this program to nearly \$300

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, the 2015-16 budget provided \$85 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 (SEPs). Based on an allocation formula, 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 2016-17, the system is requesting \$105 million to enhance student success including \$55 million to restore categorical programs to pre-recession levels and a \$50 million increase for SSSP/SEP. Restoring categorical funding would aid students in important ways such as increasing office hours for part-time faculty and by providing CalWORKs students with enhanced support necessary to complete their programs and enter the workforce. An augmentation to SSSP/SEP could be targeted at supporting local training and professional development for all staff. Given the many initiatives undertaken by the system in recent years (Student Success, distance education, impacts of Common Core, to name a few), finding resources for professional development may be more critical at this time than ever.

Cost of Living Adjustment (COLA) (\$100 million)

Historically, the community colleges have received annual Cost-of-Living-Adjustment (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.

The statutory COLA for 2016-17 is currently estimated by School Services of California to be 1.6% which equates to approximately \$100 million in funding for the CCCs. The system is requesting that the state fund the statutory COLA in 2016-17 at whatever value the final factor is determined to be.

General Operating Expenses (\$250 million)

In 2015-16, the CCC system received \$267 million as an augmentation to base funding, partly in recognition of increasing costs and a decline in purchasing power due to non-payment of COLAs between 2007-08 and 2012-13. We estimate the cumulative purchasing power lost over those years at nearly \$1 billion. Colleges have experienced rising expenses in the form of information

technology to provide modern instruction, higher utility bills and health care costs, campus security, and other expenses, without corresponding funds to keep pace with those costs. Further, colleges face rapidly increasing contributions to the CalSTRS and CalPERS systems. Without additional resources, these rate increases would absorb district general fund resources. When funding fails to keep pace with expenditure increases, the quality of education is diminished over time.

For 2016-17, the system is requesting an increase in base funding of \$250 million to help address general operating expenses. This increase will help restore some of the purchasing power lost in years when no COLA was received, fund the increase in CalSTRS and CalPERS obligations, and provide colleges with the discretionary resources needed to address local concerns and priorities.

Full-Time Faculty Hiring

(\$80 million)

Full-time faculty benefit students and colleges by providing critical services such as academic advising during faculty office hours, ongoing curriculum development, and by participating in institutional planning and shared governance. For districts, though, hiring additional full-time faculty represents a substantial ongoing cost commitment.

The 2015-16 budget included \$62.3 million to support increased hiring of full-time faculty. For 2016-17, we are requesting an additional \$80 million to be used by the districts to hire additional full-time faculty and make further progress toward the 75 percent goal. 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 level of commitment toward employing full-time faculty. Those with a lower ratio 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.

Technology

(\$22 million)

Technology is an increasingly important component of higher education in the 21st century. Reflecting this reality, the system request includes \$22 million in additional resources for the Telecommunications and Technology Infrastructure Program (TTIP) program (\$7 million for one-time activities).

These funds would accomplish several objectives. 1) Enhance the existing network and boost the infrastructure of the services provided to the entire system given the recent state investment in CCC technology initiatives. This effort would further strengthen the network connections, ensure appropriate back-up, and augment the network bandwidth to respond to increased demand. 2) Add a centralized security center to promote risk assessment, training, and dissemination of best practices related to network security. 3) Further, these funds would support an integrated library

system, help to meet greater demand for CCC Apply help-desk services, and provide additional investment in video conferencing services offered throughout the system.

Institutional Effectiveness

(\$15 million)

The Institutional Effectiveness Division oversees the development and operation of a comprehensive technical assistance program to further student success. The goal of Institutional Effectiveness is to work closely with the Board of Governors, internally within the Chancellor's Office, and with colleges/districts to develop, monitor, measure, and implement a framework of data analysis and standards that will support all community college districts. Ultimately, the colleges will benefit from technical assistance and training, supported by subject matter experts, to address the issues associated with accreditation sanctions and other challenges, and students will benefit from attending more effective institutions.

An augmentation of \$15 million is requested to further develop and expand on the existing subject matter expert model and to provide more specialized training to support continuous improvement activities. This funding will increase the number of grants, expand on the community of practice model, and develop a more formalized training infrastructure for the partnership resource teams. The specialized training program requests additional resources to expand the number of training activities in response to demand from the system. In addition, the program requests additional resources to incentivize and support the implementation of transformational activities with dedicated support to implement best practices.

Basic Skills

(\$20 million)

The 2015-16 budget recognized the importance of basic skills by funding \$70 million in one-time initiatives, including \$60 million to help districts implement research-based practices, and an additional \$10 million to enhance collaboration among community colleges, high schools, and CSU to ensure CSU freshmen are prepared for college-level work. While these funds should improve the quality and effectiveness of offerings throughout the state, basic skills is an ongoing effort that merits ongoing attention. The Chancellor's Office recommends that an additional \$20 million be provided in the budget to ensure that the momentum provided through the one-time funds is sustained.

Public Outreach

(\$1,500,000)

The "I Can Afford College" outreach and marketing campaign works to inform residents that community colleges are affordable and accessible and that financial aid is available to help with the costs associated with attendance. The target audience is low to middle-income high school juniors and seniors, recent high school graduates, their parents and influencers, and re-entry students. All of the outreach campaign's activities drive people to the heart of the campaign, which is the

icanaffordcollege.com website. The bilingual English/Spanish website provides information on the types of financial aid available, online applications, and contact information for local financial aid offices.

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 during a time when student fees have continued to increase. As the Governor has placed a high priority on expanding access to college and increasing transfers to the other higher education segments, this campaign is critical to informing students of resources available to allow them to attend and succeed in college.

For 2016-17, we are requesting a \$1.5 million increase for the "I Can Afford College" campaign; this would bring the total annual funding to \$4.3 million. This increased funding would restore the purchasing power to its original level and allow the campaign to resume outreach in markets that had to be cut from the campaign because of cost, as well as to resume marketing in Spanish.

One-Time Funding Request

The 2016-17 request suggests funding in the following areas should one-time funds become available.

- **Deferred Maintenance and Instructional Equipment** - 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 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 become scarce since 2008-09 due to the state eliminating ongoing 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.

- **Discretionary Block Grant** – The two most recent budgets have provided block grants to districts on a per-FTES basis to retire prior year mandate obligations. While most of those obligations have now been paid down, colleges can still benefit by receiving discretionary

funds to address local priorities, including professional development, capital needs, paying down retirement health benefit liabilities, or the purchase of instructional equipment and materials.

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's degrees in this state, we encourage the state to accelerate the reinvestment 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.

While the 2015-16 budget increased the amount of competitive awards from 22,500 to 25,750, this is just a small step. Given the importance of the state's need to support equity *and* access, we urge an increase in Cal Grant funding in the 2016-17 budget.

Request for Guaranteed Revenue Backfill

While not a request for a specific funding augmentation, the need for guaranteed revenue backfill is as important to the stability of funding for the California Community Colleges as any item. Our general apportionment is now predominantly based on *estimated* revenues at the time the annual budget is approved rather than on the general fund appropriation in the budget. In the 2008-09 fiscal year, about 2/3rds of our funds were appropriated in the annual budget act. That amount has shrunk over the years due to an increased reliance on property taxes, the Educational Protection Account revenues (Proposition 30), and funds owing to the dissolution of RDAs. To the extent estimated revenues do not materialize at the level 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.

While we have gained the promise of statutory backfills for RDA and EPA revenues, colleges continue to face uncertainty 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 the state should provide colleges with a guaranteed backfill to assure the certainty of district budgets and provide increased truth in state budgeting.

Staff: Diane Brady, Director, College Finance and Facilities Planning