





The Board of Governors of the California Community Colleges

PRESENTED TO THE BOARD OF GOVERNORS
 DATE: January 19, 2016

SUBJECT: Update on the Governor's 2016-17 Budget Proposal		Item Number: 4.3	
		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	
		Information	X

ISSUE: This item presents an overview of the Governor's 2016-17 budget proposal as it relates to the California Community Colleges.

RECOMMENDATION: This item is presented for Board information and discussion.

BACKGROUND: On January 7, 2016, the Governor released his initial budget proposal for the 2016-17 fiscal year. According to the Department of Finance, the outlook for K-14 education is positive, if not to the degree seen in the 2015-16 fiscal year.

ANALYSIS: As in recent years, the state’s revenue outlook continues to improve. The total General Fund revenues for 2016-17 are estimated at \$124.2 billion, up from a revised base of \$120.2 billion budgeted for 2015-16. Governor Brown remains cautious about overextending expenditures in light of the state’s history of boom and bust cycles. To that end, the Governor’s budget summary places an emphasis on the extent to which the increase in revenues is attributable to the volatile source of capital gains. Broadly, the Governor’s proposal for the state puts a focus on paying down debts, addressing poverty, and climate change.

Proposition 98

The Proposition 98 minimum guarantee is estimated to grow to \$71.6 billion in 2016-17, up from the \$68.4 billion assumed as part of the 2015-16 budget agreement. The Department of Finance estimates that 2016-17 will be a Test 3 year, and the colleges receive the traditional 10.93% share of the total Prop 98 pot in this proposal. Additionally, the minimum guarantee increased significantly for the 2015-16 fiscal year (from \$68.4 billion to \$69.2 billion) and to a lesser extent for the 2014-15 fiscal year. This results in additional one-time funding for colleges which will be addressed below.

Community Colleges

The Higher Education section of the Executive Summary focuses attention on some key priorities of the Governor, specifically student success and program completion, the use of technology to improve efficiency and student outcomes, and improving time to degree. As you will see below, these priorities are reflected in many of the funding proposals.

The highlights of the budget for the colleges are as follows:

- **Access** - \$114.7 million for increased access. This is an increase of roughly 2 percent, sufficient to expand access by close to 50,000 students (headcount).
- **COLA** - \$29.3 million for a COLA of 0.47 percent. Note that this represents a significant difference from the 1.99 percent the LAO had estimated in November. Certain categorical programs also receive a COLA, including EOPS, DSPS, CalWORKs and the Child Care Tax Bailout.
- **Workforce** - \$200 million added to the EWD item to improve and expand efforts for workforce, consistent with recommendations made by the Task Force on Workforce, Job Creation and Strong Economy.
- **CTE Pathways (SB 1070)** - \$48 million is funded for this program on an ongoing basis. The Governor’s intent is to repeal the sunset date for this program to make it permanent.
- **Basic Skills** – \$30 million increase to the existing Basic Skills categorical to incentivize and support colleges that successfully implement research-based practices that transition students from basic skills to college-level programs. More details on program criteria and the funding allocation model will be known when the trailer bill language is released at the end of January, but we are told that

the increase is ongoing and the allocation model will include a hold harmless provision so that no college will receive less in the future than they currently receive, despite changes to the allocation methodology.

- **Maintenance and Instructional Equipment** - \$289.5 million is provided for deferred maintenance and instructional equipment. Similar to the funding provided in 2015-16, districts will have the flexibility to distribute funds among maintenance, instructional equipment, and drought response activities. No local match is required. Approximately \$255 million of these funds are from ongoing resources.
- **Data Security** - \$3 million is added to the TTIP program for the purpose of enhancing data security.
- **Institutional Effectiveness** - \$10 million is added to the Institutional Effectiveness program, in part, to augment support of technical assistance to the colleges.
- **Proposition 39** - \$45.2 million is provided for energy efficiency projects and workforce development consistent with the intent of Proposition 39.
- **Apprenticeship** - \$1.8 million is provided for the purpose of providing parity to apprenticeship rates relating to various general purpose funding augmentations received by colleges in 2015-16 (e.g., the general operating expense funds, funds for full-time faculty hiring).
- **Cal Grant** - \$39 million is continued for the Full-Time Student Success Grant, which provides supplemental financial assistance to Cal Grant B recipients taking 12 units or more. This program was initially funded in the 15-16 budget and the Governor proposes to fund it again at the same level.
- **Innovation Awards** - \$25 million is proposed for grants related to innovative practices in community colleges. More details on criteria will be released with the trailer bill. This item is proposed on a one-time basis, though the funding comes from ongoing resources.
- **Zero Textbook Cost Degree** - \$5 million is provided to incentivize programs that have no costs to students for the use of textbooks. More details on these grants are expected when the trailer bill is released later this month. This item is proposed on a one-time basis, though the funding comes from ongoing resources.
- **Fees** – No fee increases are proposed at this time.

One-time Funding

- **Mandate Reimbursements** - \$76.3 million in one-time funding is provided on a per-FTEs basis to retire outstanding mandate claims.

As mentioned above, Governor Brown is very concerned about the extent to which capital gains are fueling the state's revenue increases. To this end, the amount of ongoing funding proposed for maintenance and equipment is noteworthy, as these funds provide something of a cushion in the event this year's revenues are not sustainable. Between this and the one-time funding provided for mandate reimbursement, the Governor's proposal continues a long-term focus on paying down debt.

Notes of Caution

While the 2016-17 fiscal year appears to be a strong one for the California Community Colleges, we need to remember that districts will face substantial challenges in the coming years due to increases in the STRS and PERS employer contribution rates. These increases will need to be addressed by colleges at the same time that Proposition 30 revenues phase out (the sales tax provision expires on December 31 of this year and the income tax provision expires at the end of 2018). Many districts also face large liabilities relating to retiree health benefits. Further, given the high volatility of California's revenue structure, we must also consider the possibility that another recession could occur at almost any time.

The 2015-16 budget provided an augmentation of \$266.7 million for general operating expenses, in part, to help districts manage those pressing issues. No such discretionary increases are proposed at this time for 2016-17. This will make it more difficult for districts to face the challenges addressed above. When planning expenditures for the 2016-17 year, districts need to look carefully ahead to the growing retirement obligations and potential slowdown in revenues as Proposition 30 phases out. Overcommitting to ongoing obligations in the short term may lead to budget difficulties in the near future if districts do not plan appropriately.

Next Steps

The release of the January proposal is an important step, but only the first step on the road to a final budget. Next steps include an analysis of the budget proposal by the Legislative Analyst's Office, and a review by legislative committees. Revenues will be revised in May before a final budget is likely passed in June. We will keep you updated on important developments throughout the process.

Table 1. California Community College Funding 2015-16 and Proposed 2016-17

Item	2015-16 Enacted Budget	2016-17 System Budget Request	2016-17 January Proposed Budget Increases	2016-17 January Proposed Budget Item Totals
Ongoing Resources				
Enrollment Growth	\$156,457,000 (3%)	\$175,000,000 (3%)	114,668,000 (2%)	Included in CCC apportionment line item.
Cost of Living Adjustment	\$61,022,000 (1.02%)	\$100,000,000	\$29,293,000 (.47%)	
Base Allocation Funding/ Rate Increase	\$266,692,000	\$250,000,000	\$0	
Funding for Full-Time Faculty	\$62,320,000	\$80,000,000	\$0	
Task Force on Workforce, Job Creation & a Strong Economy	N/A	\$200,000,000	\$200,000,000	\$200,000,000
Student Success and Support Program (SSSP) and Student Equity	\$471,683,000 Includes the following: <ul style="list-style-type: none"> • \$285,183,000 SSSP • \$155,000,000 SEP • \$17,500,000 IE • \$14,000,000 E-transcript, E-planning, common assessment 	\$50,000,000	\$0	\$471,683,000
Institutional Effectiveness Partnership Initiative	\$17,500,000	\$15,000,000	\$10,000,000	\$27,500,000 (Included in SSSP budget item)
Technology/ Data Security (TTIP)	\$19,890,000	\$22,000,000	\$3,000,000	\$22,890,000
Basic Skills	\$20,037,000	\$20,000,000	\$30,000,000	\$50,037,000

Categorical Restoration	N/A	Requested \$55,000,000 to restore categorical programs including CalWORKS and part-time faculty programs to pre-recession levels.	\$0	N/A
EOPS	\$123,189,000	N/A	\$0	\$123,768,000*
Apprenticeship Programs	\$51,924,000	\$0	\$1,826,000	\$53,750,000
CTE (SB 1070)	\$48,000,000	N/A	\$48,000,000	\$48,000,000
Supplemental financial aid assistance for Cal Grant B recipients	\$39,000,000	N/A	\$39,000,000	\$39,000,000
Proposition 39	\$38,700,000	N/A	\$45,200,000	\$45,200,000
Public Outreach	\$2,800,000	\$1,500,000	\$0	\$2,800,000
Deferred Maintenance/ Instructional Equipment	\$148,000,000 (\$48,000,000 is one-time)	Requested one-time funding for this purpose.	\$289,516,000 (approximately \$34,500,000 is one time)	\$289,516,000
Zero Textbook cost degree	N/A	N/A	\$5,000,000	These items are funded out of ongoing resources but are specified in the budget language as one time.
Local Assistance Awards for Innovation in Higher Education	N/A	N/A	\$25,000,000	
One-Time Resources				
Mandate Reimbursements	\$603,700,000	N/A	\$76,307,000	\$76,307,000
Adult Education (Funds K14 Consortia)				

Adult Education Block Grant Program	\$500,000,000	N/A	\$500,000,000	\$500,000,000
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*Increase due to COLA. The 2016-17 proposed budget also includes a COLA for DSPS, CalWORKS, and the Childcare Tax Bailout