
CALIFORNIA COMMUNITY COLLEGES

CHANCELLOR'S OFFICE

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BACKGROUND MEMO/INFORMATION

2012-13 Second Principal Apportionment – June 24, 2013

SYNOPSIS: The 2012-13 Second Principal Apportionment for community college districts has been certified and the detailed information is available on the Chancellor's Office Fiscal Services Unit web site:

<http://extranet.cccco.edu/Divisions/FinanceFacilities/FiscalServicesUnit/Reports/AppportionmentReports/201213.aspx>

The following exhibits are available for viewing.

Exhibit "A":	District Apportionments and Payments by Program
Exhibit "B-1":	Summary of General and Grand Total Apportionments
Exhibit "B-2A":	Categorical Apportionments - Part 1
Exhibit "B-2B":	Categorical Apportionments - Part 2
Exhibit "B-2C":	Categorical Apportionments - Part 3
Exhibit "B-3":	Categorical and One-time Apportionments
Exhibit "B-4":	Monthly Payment Schedule
Exhibit "C" ¹	First Principal Apportionment

Attached is additional background information for both the general apportionment and the categorical programs, along with program contact information.

¹ It should be noted that the numbers on the Exhibit C Statewide Total page cannot be derived easily from multiplying the FTES by the funding rates, due to various adjustments and differential funding rates.

General Apportionment

NOTE: The June P2 Apportionment allocation is based on the 2012-13 Budget Act (Chapter 21, Statutes of 2012), which was enacted on June 27, 2012, and as amended by Chapter 29, Statutes of 2012, as noted below.

General Issues:

Total and monthly certified program apportionment allocations are included within Exhibit A. State general apportionment and other general supplemental funds are summarized by county on Exhibit B-1. State categorical allowances are displayed on Exhibits B-2A through B-3. Exhibit B-4 provides the payment schedule by county for June 2013.

The 2012-13 Second Principal Apportionment (P2) allocations for June 2013 are based on each district's certified April 15th P2 Full Time Equivalent Student (FTES) along with each county's April 15th estimate of current year district property tax and each district's April 15th estimate of enrollment fee revenue for the current year.

Detail:

Schools and Local Protection Act of 2012:

On November 6, 2012, voters passed Proposition 30, the Schools and Local Public Safety Protection Act of 2012. This Act authorized the State of California to temporarily increase sales and income taxes for four and seven years, respectively, to generate funds for critical state and local services, including education, police and fire protection, and healthcare.

The Education Protection Account (EPA) was created to receive and disburse the revenues derived from the sales and income tax increases. For the year 2012-13, the Director of Finance estimated the amount of additional revenues derived from the incremental increases in tax rates available for transfer into the EPA, and authorized payment of this amount in June. We distributed \$804.54 million on June 24, 2013. Pursuant to a statutory backfill provision in the 2012-13 budget trailer bill, we will receive an additional \$50.9 million to distribute shortly. This \$50.9 million represents the difference between the \$855.47 estimated at the time of the Budget Act and the \$804.54 actually received.

For 2013-14 and beyond, the EPA revenues will be distributed quarterly.

Growth Funding and Repayment of Workload Reductions:

One result of the passage of Proposition 30 was that the system received \$50 million in "growth" funding. This funding is being allocated to partially repay the 2009-10 workload reduction of \$190 million. This \$50 million, when combined with the \$126 million in growth funding received in 2010-11, represents 92.6% of the 2009-10 workload reduction. Thus, the new \$50 million has been allocated to districts to repay 2009-10 workload reductions, provided districts had sufficient FTES to earn it. Since not all districts had sufficient FTES to earn back their share of the workload reduction based on their April 15th certified FTES, any additional remaining funds were allocated to districts with sufficient FTES to fully repay their entire 2009-10 workload reduction. As of P2, \$42.8 million of the \$50 million has been allocated. These allocations will likely change at Recal, after we receive the final FTES numbers for the year. At that time, if there has still not been sufficient FTES in the system to repay \$50 million of the 2009-10 cut, we will begin to repay districts for their 2011-12 workload reduction, on a proportional basis.

Those districts that have not yet increased their FTES enough to receive their share of the growth funds will have the 2013-14 year to do so, after which the opportunity for repayment of the 2009-10 workload reductions will be closed. Repayment of the 2011-12 workload reductions will be made proportionally to the amount of growth funding the system receives each year until the entire \$385 million is repaid. Districts that do not generate sufficient FTES to capture their share of the growth funds in a particular year will lose their opportunity to gain repayment of that proportion of their 2011-12 cut.

General Apportionment Deficit/Revenue Shortfall:

The statewide deficit at P2 is \$236 million. This represents a deficit factor of 4.31% statewide, or 4.78% to individual districts. Significant concern has been expressed about the large deficit that still exists at P2. This is understandable; however, the actual revenue picture is not as dire as the deficit coefficient/revenue shortfall would indicate, for reasons outlined below.

First, it must be noted that the Chancellor's Office can only make allocations on the basis of numbers that have been certified. This includes property tax and student fee revenue, as well as FTES. The basis for P2 calculation are the numbers that are certified by districts and counties in April.

Deficits arise as a result of shortfalls in various sources of revenue. Historically the system deficits have arisen from a shortfall in property tax or fee revenue in relation to the state's estimate at the beginning of the fiscal year; however, the magnitude of the shortfall was generally not as large as what is occurring now. The primary cause of the large deficit in 2012-13 is the Redevelopment Agency (RDA) revenues that were expected to become available as a result of the dissolution of these agencies. As of P2, these RDA revenues have not materialized to the extent that was expected when the 2012-13 budget was enacted. Based on the system's past history of deficits arising from overly optimistic revenue estimates, community college stakeholders advocated for and received a guarantee that any shortage in the RDA revenues would be backfilled by the state. The current status of the RDA backfill is discussed in more detail below.

The deficit will be reduced by approximately 1% in the very near future, as \$50.9 million in additional EPA funds will be distributed, as noted above. At that time a new Exhibit C will be generated, which will show a revenue shortfall of \$185 million.

Redevelopment Agency (RDA) revenues and backfill:

As noted above, RDA revenues represent a substantial portion of the local revenue estimated at the time the budget was enacted, and a shortfall in this revenue compared to the original estimate has resulted in a significant deficit at P2. AB 1484, which was signed as part of the 2012-13 budget package, prescribed the process to be used to wind down the RDAs and distribute the funding. The legislation required County Auditor-Controllers (ACs) to report anticipated RDA distributions to the Department of Finance (DOF), on a different schedule than they report property tax revenues to us. In addition, the ACs do not break down the distributions by district, and they are not required to give us the same information they give DOF. On top of all that is an unresolved timing issue, whereby the determination of which fiscal year to attribute July payments to is not handled in a uniform way across the state.

The result of all this complexity is that although we have been promised a backfill, the dollar amount of the needed backfill is in dispute. The Department of Finance asserts that districts have received \$213.6 million in RDA Residual payment as of July 17, 2013, plus an additional share of the ERAF Residual totaling \$599.4 million. The split on the ERAF Residual is expected to be approximately 10% CCCs and 90% K12, so that CCC districts are estimated to have received almost \$60 million from that source, for a total of approximately \$273.6 million. This information can be found at the following link:

http://www.dof.ca.gov/redevelopment/property_tax_residual_distribution/

Conversely, what the county ACs reported in April totaled \$144.3 million, and this was the basis for the P2. Districts have since made the effort to determine the amount of funds they have actually received as of the end of the fiscal year 2012-13, and that amount totaled \$191.6 million. Thus, the difference between what the Department of Finance estimated and what CCC districts actually report receiving is \$82 million.

The Chancellor's Office has been in discussions with the Department of Finance about this matter, and we will continue these discussions. We will advise you of our progress as this process continues.

Other contributors to the deficit:

Other factors contributing to the deficit at P2 are stability restoration of \$11.9 million, and the minimum \$100 per FTES of EPA funds that are required to be paid to locally-funded (basic aid) districts (\$9.3 million). These two factors add to the system's structural deficit.

But the fact remains that the largest contributing factor to the system's deficit is the RDA revenue shortfall. We currently do not know when it will be backfilled, or by how much. We will keep you apprised as our discussions with Finance progress. We will continue to work with DOF in identifying the actual revenues and securing an appropriate and timely backfill.

General info

Deferrals:

The passage of Proposition 30 also reduced the amount of 2012-13 deferral payments from \$961 million to \$801 million system-wide. Monthly payments shown in Exhibit B-4 are net of the deferral payments.

Due to significant year-to-year changes in fee and property tax revenues, along with reduced FTES counts, a number of districts were overpaid in state general apportionment funds at the time of the Advance Apportionment. The Chancellor's Office attempted to recover the overpayments at P1 and P2 by offsetting against categorical funds, but in some cases there was not enough scheduled funding available to withhold. The result is that less than \$801 million was deferred to July as required. On July 5, \$765 million of the total deferred \$775 million was distributed to districts. There is a remaining \$10 million that will be distributed as soon as possible.

FTES counts:

Total ACTUAL statewide FTES at P2 declined slightly from P1, to a total of 1,111,989. FUNDED statewide FTES at P1 was 1,101,388, leaving 10,601 unfunded FTES in the system. Restoration of prior year declines resulted in an increase in total FTES of approximately 2,600 FTES.

Summary

It is too early to say exactly what the deficit will be at Recal after the RDA backfill is received. We estimate a range between .5% and 2% depending on the final amount of RDA backfill we receive.

Negotiations with DOF are ongoing and we will keep you apprised of any progress made.

Categorical Apportionment

The July 2009 Budget Act, ABX4 1, made substantial cuts to most of the CCC categorical programs. It exempted two programs from cuts (Financial Aid and Foster Care), fully eliminated one program (Physical Plant/Instructional Equipment), and made a range of cuts from 32% to 51% to the other categorical programs. Eleven categorical programs fall under flexibility provisions embodied in the Education Trailer Bill, ABX4 2, which provides districts with the authority to move funds from these 11 categorical programs to any other categorical program. In addition, the funding for these 11 categorical programs (Academic Senate, Childcare Tax Bailout, Equal Employment Opportunity, Economic Development, Apprenticeship, Part-Time Faculty Office Hours, Part-Time Faculty Health Benefits, Part-Time Faculty Compensation, Transfer Education and Articulation, Matriculation, and Physical Plant and Instructional Support) is locked-in at the 2008-09 district allocation level, less the level of the 2009-10 cut. Below are narrative descriptions for some of the categorical programs funded through the P1 Apportionment.

Extended Opportunity Programs and Services (EOPS): The FY 2012-13 Second Principal Apportionments report (P2) for EOPS is in the amount of \$65.273 million and reflects the actual allocations to the colleges and includes \$92,285 for a contract awarded to Pasadena Area CCD. The EOPS P2 reflects one-time adjustments to increase the program allocations at 46 colleges which were awarded EOPS reallocated funds at mid-year. Allocations to fund all of the other colleges remain unchanged from the P1.

Cooperative Agencies Resources for Education (CARE): The Second Principal Apportionment (P2) report allocates \$9.332 million to operate 113 college CARE programs in 72 districts. The CARE P2 reflects one-time adjustments to increase the program allocations at 41 colleges that were awarded CARE reallocated funds at mid-year.

Disabled Student Programs and Services (DSPS): The FY 2012-13 Second Principal Apportionment report (P2) for DSPS totals \$69,223,000. After funding is subtracted to support our Alternate Tech Production Center, High Tech Center Training Unit, Distance Education Captioning and Transcription, Access to Print, State Developmental Center Adult Education and our Program Accountability Development and Services (PADS) set aside, it reflects a total of \$56,636,008 in allocations, including: \$55,443,860 allocated to the colleges in P1. In P2 colleges received an additional \$51,524 in redirected PADS funds and \$40,008 in redirected State Developmental Center Adult Education funds in addition to DSPS and DHH funds returned by the colleges. The DSPS P2 reflects one-time adjustments to increase DSPS program allocations by \$1,868 at colleges that requested DSPS P2 funding by the deadline, and \$792 in DHH funding at colleges that requested P2 DHH funding by the deadline and promised the appropriate match. Allocations at all of the other colleges remain unchanged from the P1. P2 totals may also be found at our website under "DSPS allocations": <http://extranet.cccco.edu/Divisions/StudentServices/DSPS/Allocations.aspx>

Part-Time Faculty Compensation: Funding for this program falls under the "flexibility" provisions embodied in ABX4 2. The P1 allocations remain unchanged from the allocations made at the 2012-13 First Principal Apportionment. Therefore, we are providing districts that received allocations under these programs in 2008-09, with the same allocation amounts, less the amount of the 2009-10 cuts to these two programs, which equaled 51 percent. These P1 allocations will not change at the P2 or the final Recalculation, unless a mid-year correction is made to these programs through the budget process.

Part-Time Faculty Office Hours and Health Benefits: Funding for these two programs falls under the “flexibility” provisions embodied in ABX4 2. Therefore, we are providing districts that received allocations under these programs in 2008-09, with the same allocation amounts, less the amount of the 2009-10 cuts to these two programs, which equaled 51 percent. These P1 allocations will not change at the P2 or the final Recalculation, unless a mid-year correction is made to these programs through the budget process.

Questions regarding the general apportionment may be addressed to Randy Fong at (916) 327-6238 or via email at rfong@cccco.edu. Questions regarding the categorical apportionments for may be addressed to Patricia Servin at (916) 445-1163 or via email at pservin@cccco.edu.

Additional questions regarding categorical apportionments should be referred to the following individuals:

Apprenticeship – John Dunn (916) 445-8026

Basic Skills – Barbara Illowsky (916) 327-2987

California Work Opportunities and Responsibility to Kids (CalWORKs) and Temporary Assistance for Needy Families (TANF) – Jason Orta (916) 327-5890

Career Technical Education –

Disabled Students Program and Services (DSPS) and State Hospital Developmental Centers - Scott Berenson (916) 322-3234 or Scott Valverde (916) 445-5809

Economic Development – Katie Gilks (916) 323-5863

Equal Employment Opportunity (EEO) – Leslie LeBlanc (916) 445-1997

Extended Opportunity Programs and Services - Cheryl Fong (916) 323-5954

Cooperative Agencies Resources for Education (CARE) - Cheryl Fong (916) 323-5954

Instructional Equipment & Library Materials - Lan Yuan (916) 323-5957

Scheduled Maintenance and Repair - Lan Yuan (916) 323-5957

Credit / Non Credit Matriculation – Debra Sheldon (916) 322-2818

Student Financial Aid Administration – Terence Gardner (916) 327-5892

Telecommunications Allocations – Bonnie Edwards (916) 327-5899

Vocational & Applied Technology & Education Act (VATEA) - Robin Harrington (916) 322-6810