

## **SACRAMENTO REPORT**

**May 18, 2015**

### ***Budget Update***

Earlier this morning the administration released their updated budget plan, the May Revise. The new budget plan contains significantly more resources than the January budget proposal. Overall, the May Revise reflects a \$6.7 billion increase in general fund revenues, of that funding \$6.1 billion in increased funding would go to K-14 education over the three years of the budget, 2013-14, 2014-15 and 2015-16. Of that funding, \$3.1 billion in additional funding is provided in the current year and \$2.7 billion in the budget year. With the updated revenues, the total Proposition 98 funding for the budget year is at \$68.4 billion.

### Community College

The May Revise contains an increase of \$619 million above the January budget proposal. It is important to note, however, that even if the Legislature adopted the Governor's May Revision without any changes, the community college system operational budgets are still close to \$1 billion below where they were, accounting for inflation. The May Revise contains the following adjustments for community colleges:

- Apportionments – total increase of \$60.3 million to cover the following areas:
  1. Increase of \$49.7 million to \$156.5 million to increase growth funding from 2% to 3%.
  2. Decrease of \$31.3 million for a total of \$61 million to decrease COLA from 1.58% to 1.02%.
  3. \$41.9 million to allow colleges to earn back enrollment funding for declines in enrollment over the past two years, as currently allowed in statute. Finance indicates that this funding was inadvertently excluded from the January proposal.
- Increase of \$141.7 million to base allocation. This brings the base allocation increase to a total of \$266.7 million.
- \$75 million to increase the number of full-time faculty at each district. The funding would go out on an FTES basis with districts with less full-time faculty being required to increase their full-time faculty more than those with a high number of full-time faculty.
- \$60 million in one-time funding for Basic Skills and Outcomes Transformation Program. This funding is intended to assist colleges in the delivery of basic skills instruction by adopting or expanding the use of evidence based models of basic skills programs.

- \$148 million in one-time funding for deferred maintenance and instructional equipment. The funding could be spent on either priority and no match is required.
- Increase of \$274.7 million in one-time funds for a total of \$626 million to continue to pay down outstanding mandates. These funds would be distributed per FTES.
- \$15 million increase for Student Equity Plan funding, bringing the total proposed increase to \$115 million for the 2015-16 fiscal year. Concurrently, provisional language will require the implementation of SB 1023 (Liu, 2014), which authorizes a pilot program to provide additional support of foster youth who participate in EOPS.
- \$15 million increase for the Institutional Effectiveness Partnership Initiative. Of this amount, \$3 million will go toward technical assistance and the remaining \$12 million is for the development and dissemination of effective practices. Provisional language would prioritize development of curriculum and practices for members of the California Conservation Corps and for inmates pursuant to SB 1391 (Hancock, 2014). There will also be language included in the budget encouraging districts to offer up funding to enhance inmate education efforts.
- \$2.5 million to fund the COLA for the EOPS, DSPS, CalWORKs, and the Childcare Tax Bailout programs.
- \$2 million in one-time funds for a pilot program to foster collaboration between colleges and CSU campuses relating to basic skills instruction.
- Decrease of \$825,000 in energy efficiency funding pursuant to the California Clean Energy Jobs Act (Proposition 39, 2012). This reduces the amount available in 2015-16 to \$38.7 million.
- \$25 million increase in Proposition 98 funds for the Awards in Innovation in Higher Education bringing the proposed total funding to \$50 million for the 2015-16 fiscal year. Half would be Proposition 98 and half would be non-98. The May Revise would also reclassify \$23 million in current year awards as Proposition 98 funds, reflecting awards coordinated by community colleges. The May Revise also proposes to allow community colleges may be lead applicants for awards.

#### Adult Education

The May Revise proposes a number of changes to the Adult Education block grant. The administration does not propose to increase the funding level of the block grant, keeping it at \$500 million. The administration proposes the following changes:

- Eliminate the allocation board within each consortium – instead each consortium would be required to create rules and processes regarding how it will make decisions based on state guidelines that require consortia to seek and respond to input on proposed decisions from interested stakeholders and to make policy decisions.
- Each consortium would develop a comprehensive plan for adult education in its region at least once every three years with annual updates.
- The Superintendent and State Chancellor will certify the MOE by July 30<sup>th</sup> and will determine the allocation of remaining block grant funds by October 30<sup>th</sup>.
- Starting in 2016, the Superintendent and Chancellor will provide preliminary allocations to consortia shortly following the release of each Governor's budget and final allocations along with estimates for the next two years shortly after each budget is enacted.
- Eliminate the need for a fiscal agent of each consortium.
- The Superintendent and Chancellor will, by January 31, 2016, develop and submit a plan to distribute Workforce Innovation and Opportunity Act Title II and Perkins funding using the consortia structure in future years. School districts, county offices of education, and community college districts that receive other specified state funds or federal funds for adult education must be participating members of an adult education consortium.

### Health and Welfare

The administration was able to provide some relief to the Health and Human services side of the budget by proposing an earned income tax credit. The credit will benefit 825,000 families at the very lowest of the income scale. The cost to the state is \$380 million. However, because it is scored as lost revenue and not allocated funding it simply decreases the revenues coming into the state and does not require manipulation of Proposition 98. It simply lowers the guarantee slightly. It is very unlikely that the education coalition will oppose this move as with all the increase in Proposition 98 funding, they would look very greedy.

### UC

The administration proposes increasing funding to the system in a number of ways. In exchange, the UC would commit to not increasing fees in 2015-16 and increasing transfer opportunities for community college students. Specifically,

- \$119.5 million in increased general fund on an ongoing basis
- \$25 million in one-time funding for deferred maintenance
- \$25 million in Cap and Trade revenues to be used for energy efficiency projects.

- Over the next two academic years, UC will articulate specific pathways for transfers that are closely aligned to the ADTs established by community colleges and CSU for its 20 most popular majors.
- UC will also adopt new pension rules that provide new employees with the option to participate in a full defined contribution plan or choose a defined benefit plan that has a PEPPRA cap at approximately \$117,000. In exchange, the administration will provide funding out of Proposition 2 to pay down some of the system's pension obligations.

### CSU

The administration proposes additional funding for CSU as well while expecting the CSU to make some changes in exchange. The administration proposes:

- \$119.5 million in ongoing funding for CSU and \$25 million in one-time for deferred maintenance.
- \$35 million in Cap and Trade funds for energy efficiency projects.
- The administration also proposes a base adjustment of \$38 million.
- With the base adjustment increase, the administration expects CSU to:
  - Support efforts to improve student success at all of the campuses.
  - Enroll more transfer students beginning in the coming year. The administration estimates that the new funds will allow campuses to enroll approximately 1,500 more transfer students by the spring of 2016.

### Analysis

While this is one of the best budgets we have seen in years and the administration has provided a great influx of funding for community colleges, however, as noted above, we are still not at the operational level, when inflation is included that we were previously. The Governor is able to somewhat take care of UC and CSU and health and welfare programs which will relieve some pressure to go after Proposition 98. However, there will still be some unhappy groups that might seek to find a way to access Proposition 98 funding for their priorities or go after the reserve fund.

Proposals from the administration include increases in full-time faculty and allocations for basic skills. Along with the 1% increase in funding for growth there is a balance between access and success that is being struck by the administration. It is clear that they are recognizing the need for basic skills to be addressed at the community college level. There will be a big expectation for districts to grow next year with the 3% growth number and most of the current enrollment being funded. Enrollment management will be a much discussed topic in the coming year.

The administration does not propose any additional funding for categorical programs outside of the COLA for them. There will likely be some categorical groups that will try to

redirect funding to categorical programs, possibly from the base allocation or proposed growth funds.

The base allocation increase will be critical to our colleges that are still trying to make up for past loss of purchasing power and will have to prepare for significant future costs which include increases in CalSTRS and CalPERS contributions. Additionally, districts need to be prepared for the next economic downturn and/or if Proposition 30 is not renewed. Adding additional funding for mandates is something that we suggested last year as an additional way to save for CalPERS and CalSTRS increases.

This is a great budget. We are seeking more clarification around adult education, how the basic skills funding would be distributed, how the mechanism for the full-time faculty fund would work and what intent language around funding for CalPERS and CalSTRS cost increases might look like.

We will have more information in the days to come as information is made available.