

Budget Update

The Governor released his 2015-16 budget proposal this morning kicking off the discussion for the development of the state budget over the next few months. For Proposition 98 and community colleges, the proposal is very good.

In total, community colleges, under the Governor's proposal, would receive approximately \$1 billion in additional funding, \$400 million in one-time funding and \$600 million in ongoing funding plus complete buy-down of past year deferrals. Also included in the budget is a \$500 million block grant for adult education.

We were provided a briefing, but we will still learn more details about the budget in the coming weeks as trailer bill language is released and more specifics are made available and will provide you with those updates.

For community colleges, the Governor's budget proposes the following:

Ongoing funding

- **\$106.9 million for 2% growth:** the budget does not propose to change or delay the implementation of the new growth formula.
- **\$92.4 million for 1.58% COLA:** this is the statutory COLA
- **\$125 million to increase base allocation funding:** these funds are in recognition of increased community college operating expenses in the areas of facilities, retirement benefits, professional development, converting part-time to full-time faculty, and other general expenses.
- **\$100 million for Student Success and Support Program**
- **\$100 million for Student Equity Plans**
- **\$49 million for CDCP equalization:** the administration continues to indicate that they are committed to fully equalizing CDCD non-credit courses.
- **29.1 million for Apprenticeship:** this includes \$14.1 million to grow existing apprenticeship programs and \$15 million to create innovative apprenticeship demonstration projects that focus on new and emerging industries with unmet labor market demand.
- **\$39.6 million for Proposition 39 projects:** these funds will be allocated consistent with the provisions of Proposition 39.

One-time

- **\$94.5 million to retire deferrals:** part of the budget act last year called for any additional funding above last year's budget estimates to go to first buy-down the remaining deferrals.
- **\$48 million for the SB 1070 CTE pathways program at the Chancellor's Office**
- **\$353 million to pay down outstanding mandate claims:** these will be allocated to districts based on an FTES basis and would retire outstanding mandate claims to the extent that districts have those obligations outstanding.

Adult Education

The budget proposes a \$500 million block grant for adult education to fund the consortiums that were created with the \$25 million provided as a part of the 2013 budget bill, AB 86. Additionally, during that time period, K-12 school districts have been required to maintain their 2012-2013 levels of spending on adult education commonly referred to as maintenance of effort. The \$500 million block grant will be used to fund the areas of primary and secondary basic skills, classes and courses in citizenship and ESL, short-term CTE and programs for adults with disabilities.

In order for the adult education programs to be well coordinated and linked with the economic needs of their region as well as address the governance issues inherent in having one community college partner and multiple school district partners, the administration proposes that each consortium designate an allocation committee. The committee will consist of seven members, a representative from each of the following:

- ✓ The community college
- ✓ The K-12 districts
- ✓ Other adult education providers
- ✓ Local workforce investment boards
- ✓ County social services departments
- ✓ Correctional rehabilitation programs
- ✓ A public member with relevant experience

Each allocation committee will determine how to allocate block grant funds for direct instruction, support services, and administration of its consortium. Administration will be capped at 5%. The Chancellor of the Community Colleges and the Superintendent of Public Instruction will jointly approve allocations of funds, with an emphasis on providing funding to those regions with the greatest adult education needs. Funding allocations approved by the Chancellor and Superintendent will be distributed to providers as determined by their allocation committees.

The proposal also has the first call on the funding going to backfill the current maintenance of effort at the K-12 level. The State Chancellor and Superintendent of

Public Instruction are to determine what that MOE level is, but the administration estimates that it is in the \$300 million to \$350 million range. This means that the remaining \$200 million to \$150 million will remain to be allocated. The administration has not yet released an allocation model, but we expect that in the coming weeks as budget trailer bill language is released. We have submitted a proposal for a base calculation and will continue to work with finance as the proposal is developed.

Additionally, the adult education proposal does not change how community college districts may offer their noncredit programs with their base apportionments. Districts may continue to use apportionment funding to offer noncredit courses both in the CDCP categories as well as in the other categories. The \$500 million in funding for adult education is proposed to be additive to what community colleges offer with apportionments.

Analysis

The Governor remained consistent in his Proposition 98 split for K-12 and community colleges with community colleges getting approximately 10.95%. The \$500 million for adult education was not scored for either K-12 or community colleges, but rather “came of the top” before the split was calculated.

This is a great budget for community colleges with significant increases in all areas. Also positive is that there are no additional “reforms” or accountability measures included in the budget proposal. The administration remains committed to equalizing noncredit CDCP course funding. The \$49 million is based on P1 and they have indicated they are committed even if that increases at P2.

The administration also recognized the loss in purchasing power as well as the increasing costs districts are facing with PERS and STRS increases by providing for a base allocation increase as well as discretionary funding through the proposed mandates allocation.

The big areas for us will be in the implementation of the new growth formula and in adult education. The administration did not propose putting off implementation of the new growth formula, but has indicated that they understand the problems with it and are willing to discuss alternatives. We will need to move quickly in the legislature to develop an alternative that works for districts and addresses student needs.

On adult education, with the first \$300 to \$350 million already set aside to be allocated to K-12 districts to backfill the maintenance of effort, we will need to be vigilant on community colleges receiving an appropriate level of funding to be able to offer the services needed within each consortium. Another question is whether or not the governance structure is sufficient as it gives a lot of weight to non-98 players. The most critical piece will be to come to an agreement locally.



Overall, the Department of Finance revenue estimates were fairly close to those of the LAO which allowed for the availability of significant one-time funding, the vast majority of which was required under Proposition 98 to go to community colleges. Further, under the administration's forecast, there is probability that the May Revise could bring additional funding. Like the current budget, under the Proposition 98 formula, the vast majority of that funding would be owed to K-12 schools and community colleges. While it is still very early, it is not unlikely that the budget could get better.

All said this is a very good starting point for budget discussions.