

SACRAMENTO REPORT May 13, 2016

BUDGET UPDATE – MAY REVISE

The Governor released his May Revise updated budget proposal earlier this morning. Revenue estimates from the January proposal are down \$1.9 billion. However, there was little reduction in proposed program funding from the lower revenues. The majority of the deficit was made up through automatic “true up” through Proposition 2, the rainy day fund.

Overall, the Proposition 98 guarantee for the budget year increased slightly, while it decreased slightly for the current-year. As has been the case under this Governor, the Proposition 98 split between community colleges and K-12 remains at the statutory level of 10.93% for both 2015-16 and 2016-17.

The May Revise did not bring major resource changes to community colleges given that there was only a slight change in Proposition 98, however, there were some shifts in priorities and where funding is allocated.

Budget Funding

Major changes from the January budget proposal include the following:

- ✓ Growth – maintain 2% growth allocation
- ✓ Base Allocation – increase of \$75 million to support increases in community college operating expenses. The majority of this funding was redirected from deferred maintenance and instructional equipment (see below).
- ✓ COLA - \$29.3 million decrease to 0%. This is statutorily driven and consistent with the action for K-12.
- ✓ Property Taxes - \$38.6 million in one-time funds to address lower than estimated property tax revenues for the current-year.
- ✓ Deferred Maintenance and Instructional Equipment - \$65.8 million reduction to help support other priorities. This brings the total to \$219.4 million.
- ✓ Mandates - \$29.2 million one-time increase to retire previous mandate claims. This brings total mandate funding to \$108.5 million to go out on an FTES-basis.
- ✓ Online Education Initiative - \$20 million in one-time funding to expedite and enhance online course offerings.

- ✓ Telecommunications and Technology Infrastructure Program - \$5 million ongoing and \$7 million one-time to expand broadband capacity across community college campuses.
- ✓ Adult Education - \$5 million one-time funding to provide consortia with technical assistance.
- ✓ Categorical Programs - \$1.3 million reduction to reflect movement of COLA to 0%.
- ✓ Academic Senate - \$300,000 to support implementing Workforce Taskforce Recommendations.
- ✓ Equal Employment Opportunity Program - \$2.3 million Employment Opportunity Fund to promote equal employment opportunities in hiring and promotion at districts.
- ✓ Full-Time Student Success Funding – Increase of \$2.2 million for inclusion of Cal Grant C recipients and increased eligibility of Cal Grant B students.
- ✓ Corrections Technology - \$3 million to increase support for digital content on e-readers in state correctional facilities.
- ✓ Proposition 39 – \$4.1 million increase to support energy efficiency projects at community colleges.

Policy Changes

The January budget proposal included a number of policy proposals. The May Revision makes some adjustments to those proposals as well as proposes new policies for consideration by the Legislature. While we have not yet seen the specific details, we understand that the following are a part of the May Revision:

- ✓ Strong Workforce Program – Maintains \$200 million proposal, but augments trailer bill language to do the following:
 - Requires Chancellor's Office to provide options for course approval to be completed in 6 months and 1 year.
 - Requires Chancellor's Office to provide options for curriculum to be portable once approved.
 - Requires a 60%/40% (college/region) split of allocated funding.
 - Allows up to 60% of funds received by colleges to be used for ongoing purposes.
 - Makes a maintenance of effort based off of percent of CTE FTES to total FTES.
- ✓ Basic Skills – no change to the basic skills proposal from the January budget proposal.

- ✓ Zero-Textbook Cost Degree – No change to the \$5 million in funding, but the following implementation changes:
 - Award amounts would be decreased from a maximum of \$500,000 to \$200,000 per grant.
 - Financial sustainability of the program would be a factor for consideration.
 - Faculty purview and compliance with ADA are now specifically mentioned.
 - Start date of 2018-19 for degrees to be offered.

Other Agencies

The Governor's proposal makes some slight modifications to the UC, CSU and Student Aid Commission budgets.

CSU

- Increase of \$25 million (from the Middle Class Scholarship savings) for increased graduation rates. The funding would be contingent upon the Trustees adopting a plan and timeframe.
- Increase of \$1.1 million to support the Student Success Network.

UC

- \$25 million for increased resident enrollment.
- Increase of \$4 million for development of high-quality, middle school and high school online classes.

CSAC

- Increase of \$22 per Cal Grant B access award.

Analysis

While April revenues appeared to forebode a potential decline in funding, the May Revise overall funding for community colleges is generally flat. There are a few additional funding proposals and some positive modifications to the administration's proposed policy changes. In his press conference announcing the release of the budget, the Governor focused much attention on a potential recession and how California could respond. He noted that this current recovery has been one of the longest and cautioned against over-spending.

In the May Revise, the administration addressed the top priority for many districts that was not addressed in the January budget with the proposed base allocation increase. This should help to dampen the impact of the disappointing decrease in the COLA. There are other issues that will need to be addressed such as whether or not we want to increase the amount of Proposition 98 funding that is going towards Cal Grants with the administration's proposal to shift some additional funding for full-time Cal Grant C recipients into Proposition 98. This is a concern once again that the funding that is being used to increase financial aid is coming out of Proposition 98, particularly since it is funding for Cal Grants. No other system funds Cal Grants out of their operating budgets.

We will have further discussions on whether or not this is a priority and the best way to shape the financial aid proposals.

While we have not seen the specific language, what we understand to be the changes in the Strong Workforce proposal are welcome. The local/regional allocation proposal from the administration is less than the 70%/30% that we had proposed, however, the good news is that there is movement in the administration. Additionally, the budget proposal includes more specifics which we had sought on curriculum approval and portability. We will need to see more specifics before we can provide a complete analysis.

The \$22 increase for Cal Grant B recipients is next to nothing and given the focus on increasing financial aid throughout the system is a disappointment. The Governor does acknowledge some savings in the Middle Class Scholarship fund and this is an area where Senate Block seems willing to access funding in order to fund an additional stipend for community college Cal Grant B students. That said, the Governor reallocates the one-time savings in the Middle Class Scholarship to CSU and the Assembly is indicating that they want to use the savings to speed up the full implementation of the Middle Class Scholarship program.

The next step in the budget process is for the Legislature to respond to the administration's proposal. The constitutional deadline for the Legislature to pass a balanced budget is June 15th. Budget subcommittees will be moving quickly to finish up their work prior to passing it on to the full budget committees and conference committee that will then work out any differences between the two Houses. We will continue to work with the Legislature and the administration to refine the various proposals.

It should be noted that during the press conference, the Governor was asked about a potential extension of Proposition 30. He has indicated in the past that when he went to the voters for Proposition 30 that he had indicated that it would be temporary. In his response at the press conference, the Governor said that he was going to leave it up to the people to decide, hinting that he would not come out one way or the other. This may be the best news to come out of today's press conference.

We will have more information and analysis as it becomes available and the process continues to move forward.