

State Budget Update January 2017 (Information)

Overview

Governor Brown released his 2017-18 state budget proposal on January 10th. A key focus of his proposal budget was to urge focus and restraint, emphasizing that the budget will fall out of balance without corrective action. For community colleges, the Governor dedicates substantial resources to Guided Pathways in recognition of the potential to enhance advising, curricular alignment, and meaningful and timely assessment. Governor Brown's investment in Guided Pathways is an important and necessary catalyst for a systemic and integrated redesign of the student experience at California's community colleges.

Economic Context:

The January budget proposal reflects initial signs of an economic slowdown coupled with uncertainty about federally-funded programs. Governor Brown's budget reflects concern with appropriating one-time funds for ongoing purposes, and emphasizes that the current spending trajectory will lead to a state budget deficit. He predicts a 2017-18 deficit of \$2 billion will occur if legislature does not stave off spending growth. Revenue forecast for 2017-18 is down (compared to current year) by \$5.8 billion and is attributable to all three funding sources (personal income tax down \$2.1 billion, sales tax down \$1.9 billion and corporation tax down \$1.7 billion).

Proposition 98 and Community Colleges:

California's economic flattening has resulted in adjustments to Proposition 98, reducing the guarantee by \$900 million for the combined 2015-16 and 2016-17 budget years. The total Proposition 98 K-14 guarantee for 2017-18 is \$73.5 billion. For community colleges, the Governor's 2017-18 proposal provides over \$400 million in Proposition 98 resources – of which approximately \$220 million are in one-time funds. The clear message intended for colleges is that these one-time resources present an opportunity for strategic improvement in curriculum development, planning, and other measures to strengthen program outcomes.

Proposed Augmentations and Programmatic Elements of the 2017-18 Budget Proposal

The following augmentations are proposed for California Community Colleges for the 2017-18 budget year. This will be followed by release of the proposed Education Trailer bill by the February 1st statutory deadline. Both of these bills will be “works in progress” until the after the May Revise and the adoption of the final budget in July.

Access: \$79.3 million (1.34 percent) or about 32,000 students (headcount) for enrollment growth.

COLA: \$94.1 million for a COLA of 1.48 percent. Certain categorical programs — including EOPS, DSPS, CalWORKS, and the Child Care Tax Bailout —also receive a COLA.

Guided Pathways: \$150 million (One-Time) for implementation of guided pathways. The details of implementation will be released in the trailer bill which will likely outline programmatic requirements and allocation methodology. The intent of the funds is to support community colleges in leveraging existing efforts such as SSSP and Equity and develop a cohesive, integrated pathways to increase students outcomes and success.

Base/General Operation: \$23.6 million towards general operating expenses such as faculty and staff health programs, rising employer pension cost, and other education expenses.

Financial Aid from Prop. 98: \$3.1 million for enrollment growth in the Full-Time Student Success Grant program.

Technology: \$10 million for the Online Education Initiative to purchase a learning management system that will be provided free to colleges.

Libraries: \$6 million (One-Time) for the purchase an integrated library system (ILS) for all libraries that allows every student to access a cloud-based library catalog.

Instructional Equipment, Maintenance and Facilities: \$43.7 million (One-Time) for the Physical Plant and Instructional Equipment program and \$52.3 million (One-Time) for energy efficiency projects through the Proposition 39 program.

Innovation Awards: \$20 million (One-Time) is proposed for grants to incentivize new or proposed innovative practices in community colleges. This will be a different approach from previous years since an outside committee would not administer the program but instead the Chancellor will have select the focus of the grants and the awardees.

Areas of Concern Within the 2017-18 Budget Proposal

The League has identified some critical areas of concern within the 2017-18 budget proposal: a departure from the Proposition 98 statutory split, an inadequate investment in operating funds to maintain quality programs, capital outlay projects, and Cal Grants.

Proposition 98 Statutory Split: The 2017-18 budget departs from the statutory Proposition 98 split of 10.93 percent and proposes a split of 10.87 percent for California Community Colleges. The difference translates into about \$43 million of revenue community colleges should receive. The decision to suspend the guaranteed split of Proposition 98 funds will further widen the gap in community college per-student spending in comparison to the state's other two public postsecondary education sectors. The League will urge Governor Brown to continue its longstanding support for community colleges and provide the statutory split. Attached is a new League publication, *Why The Split Matters to Colleges*, that provide information about how suspending the split has shortchanged community college around \$3.5 billion over 24 years.

General Operating Resources: The 2017-18 budget proposes \$23.6 million to fund general operating expenses. General operating funds ensure that our colleges can continue to offer a quality education. Base funds are essential to maintaining for faculty and staff talent, converting part-time professors to full-time faculty, paying for healthcare and pensions, and covering other operating costs. Further investment in general operating funds will be a primary focus of League advocacy.

Bond and Capital Outlay: In 2016, California voters approved a facilities bond providing a \$2 billion infrastructure investment in California’s community colleges. The proposed budget only funds five of 29 ready-to-go capital projects for total of \$7.4 million of the \$29.2 billion in facilities needs as identified in the Five-Year Capital Outlay Plan.

Cal Grants: The 2017-18 Budget proposes to phase-out the Middle Class Scholarship, a \$74 million program. Further, the budget does nothing to reform Cal Grants to better serve community college students. The budget continues to distribute less than 10% of Cal Grant resources to California community college students despite the fact that our students comprise two-thirds of the higher education population. We are urging Governor Brown and members of the Legislature to ensure that saving from the Middle Class Scholarship program remain invested in financial aid.

League Advocacy Proposal

The League recognizes that while this is a good budget given the level of state and federal funding uncertainty, it unfortunately does not address the long-term fiscal soundness of colleges by not giving colleges the statutory Proposition 98 split and providing a higher base augmentation. The League will focus on the following areas as key budget priorities: receiving the statutory split, a base augmentation, and funding all 29 projects in the 2017-18 Capital Outlay Plan. It will make a strong case for providing the statutory split and directing those resources to funding a base augmentation. Further, the League will actively support the investment in one-time resources for the expansion and implementation of guided pathways.

Employer Pension Rates 2013-14 to 2020-21

Colleges anticipate an annual STRS and PERS increase of \$400 million by 2020-21.

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
STRS	8.25%	8.88%	10.73%	12.58%	14.43%	16.28%	18.13%	19.10%
PERS	11.44%	11.77%	11.85%	13.05%	16.60%	18.20%	19.90%	20.40%

Proposition 98 2015-16 to 2017-18 Budget Year (BY)

Following is a summary of the Proposition 98 split in recent years:

K-12/CCC Proposition 98 Split			
(Dollars in Millions)			
	2015-16	2016-17	2017-18
Total P98 GF Appropriations and Property Taxes	68,670	71,369	73,511
Less: K-14 - Adult Education	-500	-505	-500

Less: Other Agencies	-82	-83	-80
Total Proposition 98 Used for Split	68,088	70,781	72,931
CCC - GF Appropriations	4,804	4,938	4,965
CCC - Local Revenues	2,629	2,803	2,959
Total CCC	7,433	7,741	7,924
CCC Share	10.92%	10.94%	10.87%
K-12 - GF Appropriations	43,603	44,804	45,806
K-12 - Local Revenues	17,052	18,236	19,201
Total K-12	60,655	63,040	65,007
K-12 Share	89.08%	89.06%	89.13%

The following table summarizes the funding received in 2016-17 as well as the requests submitted for 2017-18 and the funding proposed in the Governor's Budget. The Governor's budget provides lower 2017-18 augmentations than requested and, most notably, does not provide a base augmentation but provides significant one-time resources to colleges.

Table 1. Actual Community College Funding 2016-17 vs. Requested CC Funding 2017-18 vs. Proposed 2017-18 Funding

Item	2016-17 Enacted Augmentations	2017-18 System Budget Request	2017-18 Governor's January Proposal	Notes
Ongoing Funds				
Cost of Living Adjustment (COLA)	0%	1%	\$94.1 M (1.48%)	
Enrollment Growth	2%	2%	\$79.3 M (1.34%)	Provides access to about 32,000 students.
Base Augmentation	\$75 M	\$200 M	\$23.6 M	
Student Success and Support Program (SSSP)	No Augmentation	No Augmentation	No Augmentation	
SSSP - Equity	No Augmentation	No Augmentation	No Augmentation	
Workforce & CTE Pathways	\$248 M	No Augmentation	No Augmentation	
Basic Skills	\$30 M	\$25 M	No Augmentation	

Full-Time Student Success Grants	\$2.2 M	No Augmentation	\$3.1 M	To cover enrollment growth.
COLA for EOPS, DSPS, Cal Works, Childcare Tax Bailout	0%	1%	\$5.4 M (1.48%)	
Online Education Initiative	No Augmentation	\$10 M	\$10 M	To cover the purchase of Canvas for all colleges.
One-Time Funds				
Guided Pathways			\$150 M	
Integrated Library Systems		\$6 M	\$6 M	Allows all college libraries to participate in an online catalog.
Deferred Maintenance & Instructional Equipment		\$184.5M	\$43.7 M	
Prop 39 Clean Energy Job Creation Fund			\$52.3 M	
Innovation Awards		\$25M	\$20 M	Administered by the CCCCCO and not a DOF committee.

Legislative Analyst’s Initial Comments/Analysis

While the Legislative Analyst’s Office (LAO) has not yet issued their specific analysis of the higher education budget, they have published their annual publication, “Overview of the (2017-18) Governor’s Budget.” In it, the LAO notes that:

- The Governor’s budget includes more than \$3.2 billion in actions to reduce General Fund spending growth. “The most significant of these actions is related to the Proposition 98 minimum funding guarantee for schools and community colleges. Altogether, the administration estimates these actions would eliminate their projected deficit and leave a balance in the 2017–18 year–end discretionary reserve of \$1.6 billion.” Under this proposal, the state’s Proposition 2 (2014) rainy day fund would grow to \$7.9 billion.
- The LAO states that “facing uncertainties about the future of the economy and federal policy, the Legislature may want to set its target for state reserves at—or preferably above—the level the Governor now proposes.”

In the general analysis (which will be supplemented in the coming weeks by a more complete analysis of the K-12 and higher education portions of the budget), the LAO cites the following issues regarding community college funding in the budget:

- The LAO believes the administration’s estimate of state revenue is low. “By May, General Fund revenue in 2017–18 could be significantly higher than assumed in January. Holding other factors constant, higher revenue estimates would increase the 2017–18 [Proposition 98] guarantee.”
- Additionally, the LAO stated that “the Governor’s budget roughly balances new ongoing and one–time Proposition 98 spending in 2017–18. Regardless of the exact level of the 2017–18 minimum guarantee, we recommend the Legislature adopt a final budget plan that continues to rely upon on a mix of ongoing and one–time spending. Under this approach, the Legislature could dedicate a portion of any additional increases in the minimum guarantee to LCFF and California Community Colleges apportionments... By setting aside some funding for one–time purposes, the state would be better positioned to accommodate a drop in the 2018–19 guarantee without needing to make cuts to LCFF or community college apportionments.”

Questions For Discussion

1. Are there additions to staff’s proposed advocacy priorities for the 2017-18 budget?
2. Does the Board believe the proposed enrollment growth rate is appropriate?
3. The concern of a stock market decline continues to grow. How would the board prioritize the 2017-18 budget proposal if new revenues are not identified for the May Revise?