

CEOCCC Board – January 25, 2015
Legislation and Finance -- State Budget --Discussion

OVERVIEW

Governor Brown released his 2015-16 state budget proposal on Friday, January 9th. The proposal outlined a \$158.8 billion spending plan, an increase of one percent over revised 2014-15 levels. This is comprised of \$113.3 billion of general fund (GF) expenditures, \$45.5 billion of special fund expenditures, and proposes a total of \$3.4 billion in reserve for the end of 2015-16.. Overall the proposal includes the following major features: deposits of \$1.2 billion in the Budget Stabilization Account (BSA), payment of \$1.2 billion in state debts, significant new funding for education.

In his “overview” document, the Legislative Analyst noted that the Governor’s priorities are generally prudent since budget vulnerability remains a possibility. The vulnerability for the state results from the possibility that a downturn could throw the budget out of balance, sudden tax revenues declines, and the array of compel budget formulas (especially those of Propositions 98 and 2) “complicate budget planning and exacerbate this vulnerability....”

Proposition 98 2012-13, 2013-14, 2014-15 Current Year (CY) to 2015-16 Budget Year (BY)

Following is a summary of the Proposition 98 split in recent years and as proposed for the BY:

K-12/Community College Split

2012-13	CCC 10.55%	K-12 89.45%
2013-14	CCC 10.99%	K-12 89.01%
2014-15	CCC 10.93%	K-12 89.07%
2015-16	CCC10.95%	K-12 89.05&

California Community Colleges – Proposed Augmentations for 2015-16

The following augmentations are proposed for California Community Colleges for the 2015-16 budget year. This is the “opening salvo” of the budget process and will be followed with 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 -- \$106.9 million (2%) to fund 45,000 additional students in districts with growing demands.

Student Success -- \$100 million to increase orientation, assessment, placement and counseling.

Student Equity -- \$100 million to close gaps in access and achievement as identified in local student equity plans.

QUALITY:

Cost of Living Adjustment -- \$92.4 million (1.58%) statutory COLA increase.

Operating Costs -- \$125 million for increased operations/general expenses.

Final Deferral Payment -- \$94.5 million to retire deferrals.

Mandate Claims -- \$353.3M to retire all outstanding mandate claims. These one-time funds would be allocated to districts on a per-FTE basis. (Approximately \$125 million counts against the 2015-16 minimum guarantee, with the remainder attributable to the prior years' guarantees.)

INVESTING IN WORKFORCE SKILLS:

Adult Education -- \$500 million for a K-14 block grant that builds on local collaboration of the AB 86 Regional Consortia

Career Development College Preparation (CDCP) Rate Equalization -- \$49 million to equalize the CDCP non-credit rate to the credit rate.

Apprenticeship Programs -- \$29.1 million including \$14.1 million to restore the rates and seats of current programs at the 2007-08 level and \$15 million for innovative apprenticeship projects focusing on new and emerging industries with unmet labor market demand.

Career Technical Education -- \$48 million in one-time funds to support the SB 1070 Career Technical Education Pathways Program.

Apprenticeship -- \$29.1 million including \$14.1million to restore rates and seats to their 2007-08 levels and \$15 million for innovative apprenticeship programs to focus on new and emerging industries with unmet labor market demand.

OTHER

Proposition 39 -- \$39.6 million to support projects and workforce development related to energy sustainability, consistent with the provisions of Proposition 39.

The following table summarizes the funding received in 2014-15 as well as the requests submitted for 2015-16 and the funding proposed in the Governor’s Budget. The Governor’s budget appears to be well aligned with the funding requests submitted for 2015-16.

Table 1. Community College Funding 2014-15 and Proposed 2015-16

Item	2014-15 Enacted Budget	2015-16 System Budget Request	2015-16 January Proposed Budget
Ongoing Funds			
Cost of Living Adjustment	\$47,300,000 (.85%)	\$125,000,000 (2.10% Stat. COLA)	\$94,400,000 (1.58% Statutory COLA)
Base Allocation Funding/ Rate Increase	No Augmentation	\$55,000,000 (requested in COLA BCP)	\$125,000,000
Enrollment Growth	\$140,400,000 (2.75%)	\$120,000,000	106,900,000 (2%)
Student Success and Support Program (SSSP)	\$100,000,000	\$100,000,000	\$100,000,000
Implementation of Student Equity Plans	\$70,000,000	\$100,000,000	\$100,000,000
Career Development and College Preparation (CDCP) Rate Equalization	2014-15 Budget approved increase starting in 2015-16.	Fully Fund	\$49,000,000
Apprenticeship Programs	No Augmentation	\$7,500,000 (Included under the Categorical Restoration BCP)	\$29,100,000
Mandate Backlogs	Included Under	Paydown	\$125,000,000 (in
	One-Time		budget year funding)
Professional Development	No Augmentation	\$25,000,000	No Augmentation. However, may be able to use part of the \$125M mandate backlog funding for this purpose.

Funding for Full-Time Faculty	No Augmentation	\$70,000,000	No Augmentation. However, may be able to use part of the \$125M mandate backlog funding for this purpose.
Restoration of Categorical Programs	\$30,000,000 for DSPS	\$115,000,000 Requested to restore CCC categorical programs to the pre-recession levels.	\$29,100,000 for Apprenticeship
One-Time Funds			
Career Technical Education Enhancement Fund	\$50,000,000	\$25,000,000 On-going	No Augmentation.
Mandate Backlogs (Including: Maintenance, Instructional Equipment)	\$49,500,000	Paydown	\$228,300,000 from current year and prior year
Remaining Apportionment Deferrals	\$ 592,456,000	Paydown	\$94,500,000 (would eliminate system deferrals)
CTE (SB 1070)	\$48,000,000	N/A	\$48,000,000
Other			
Proposition 39	\$37,500,000	N/A	\$39,600,000
Adult Education	\$25,000,000 (for planning grants)	\$500,000,000	\$500,000,000

ADULT EDUCATION

Over the last two years, a major statewide policy dialogue around adult education redesign and reinvestment has come to the forefront. The League has carefully tracked and advocated to build support for a system that allows regional collaboration, but most importantly delivers on student's unmet education needs. This is one of the defining issues of this year's budget process.

Background and AB 86 Regional Planning Consortia:

In July of 2013, the Governor and Legislature approved Assembly Bill 86 (AB 86), the 2013-2014 budget trailer bill, Section 76 Article 3 which provided \$25 million in joint funding (\$22.5 million of which will be distributed as grants) for planning grants to regional consortia of community college districts and school districts for the purpose of developing regional plans to better serve the educational needs of adults. Specifically, consortia are asked to create plans to better provide adults in its region with all of the following education services:

1. Elementary and secondary basic skills
2. Courses in citizenship, English as a second language
3. Education programs for adults with disabilities
4. Short-term career technical education programs with high employment potential
5. Programs for apprentices

Governor Brown's Adult Education Proposal

Governor Jerry Brown has outlined a \$500 million Adult Education Block Grant in his January Proposed Budget for 2015-16. The details are as follows:

- The first \$300 to \$350 million will backfill K-12 districts' MOE, which will be allocated through CCCC to CDE.
 - This figure excludes fee revenue charged by some adult schools.
- The remaining \$200 to \$150 million will fund regional consortiums.
- The total MOE amount will be certified by the Superintendent for Public Instruction and the Chancellor of the California Community Colleges.
- Superintendent and Chancellor will jointly approve allocation of funds to the consortiums.

The Governor's proposal provides for each consortium to establish a fiscal allocation committee, with responsibility for final spending decisions, consisting of seven (7) members, as follows:

- CCC representative
- K-12 rep
- Other adult education providers (not a K-12 or CC member)

- WIB
- Social services provider
- Correctional rehabilitation program
- Public member

The final report from the AB 86 Regional Consortia, due on March 1, 2015, will provide a framework for remaining policy decisions.

- The issue of fees will likely come up in the May Revise.

Funds can be used for direct instruction, support services, and administration of the consortia (up to 5%).

An allocation formula that will be outlined in budget trailer bill language will provide for how much will be allocated to each consortium.

- Factors will likely include need and students served.

CAPITAL OUTLAY

The budget does not provide for a general obligation bond for any segment of California education. Consequently, California school construction and home-building groups as well as the Coalition for Adequate School Housing (CASH) have announced that they are seeking to qualify a \$9 billion general obligation school bond (the “Kindergarten to Community College Public Education Facilities Bond Act of 2016” including \$7 billion for K-12 and \$2 billion for community colleges) for the November 2016 ballot.

Under this proposal, proceeds from the community college portion of the bonds may be used to fund construction on existing campuses, including:

- the construction of buildings and the acquisition of related fixtures,
- construction of facilities that may be used by more than one segment of public higher education (intersegmental),
- the renovation and reconstruction of facilities,
- site acquisition,
- the equipping of new, renovated, or reconstructed facilities, which equipment shall have an average useful life of 10 years; and
- for the payment of preconstruction costs, including, but not limited to, preliminary plans and working drawings for facilities of the California Community Colleges.

In addition, Senator Liu introduced SB 114, the Kindergarten-University Public Education Facilities Bond Act of (November) 2016 to authorize an unspecified amount of state general obligation bonds, as scheduled, to provide aid to school districts, county superintendents of schools, county boards of education, charter schools, the California Community Colleges, the University of California, the Hastings College of the Law, and the California State University to construct and modernize education facilities.

Since the last state school bond was in 2006, all funds for new construction and modernization have been spent or committed. Meanwhile, Governor Brown's proposed budget included little new state money for school facilities and indicated that he believes that K-12 has local capacity since many of the local school bonds have passed with the new threshold of 55% approval.

Last year, a bill to place a \$4.3 billion school bond on the November 2014 ballot cleared the Assembly and a Senate by unanimous vote, but stalled in August after the Brown administration made clear its opposition. When asked his position on a possible bond for 2016, the Governor replied, "Well, it's certainly not support."

Concerns about a bond for 2016 center on the fact that the temporary sales and income taxes approved by the voters in November 2013 begin to expire next year; consequently the superintendent of public Instruction and others have called for extending the increases, possibly on the 2016 ballot. Others are concerned that having a tax-extension measure benefiting schools and a school bond measure on the same ballot could hurt the chances of both.

Voters approved about \$45 billion in school and higher education borrowing since 1998. All of them – \$9.3 billion in 1998, \$13.05 billion in 2002, \$12.3 billion in 2004 and \$10.4 billion in 2006 – were put on the ballot by the Legislature. Organizers of the new effort indicated they will need to collect 365,880 valid voter signatures to qualify for the November ballot, at a probably cost of more than \$1 million.

A recent survey by Fairbank, Maslin, Maullin, Metz and Associates found that 63 percent of voters either would definitely support, probably support or lean toward supporting a \$9 billion bond. The 38 percent of voters who would "definitely" support a school bond is several percentage points higher than a poll earlier last year.

LEGISLATIVE ANALYST'S INITIAL COMMENTS/ANALYSIS

While the Legislative Analyst's Office (LAO) has not issued his specific analysis of the higher education budget as of this writing, he has published his annual publication "Overview of the [2015-16] Governor's Budget." In it, the LAO notes that:

1. The Governor's projections regarding General Fund tax revenues will end 2014-15 more than \$2 billion above its projections in last June's state budget package
2. The Governor's priorities are general prudent ones and, in his reluctance to propose significant new program commitments outside of Proposition 98, could help avoid a return to the boom and bust budgeting of the past.
3. Even higher revenues are likely for 2014-15, possibly in the range of \$1 billion to \$2 billion, which could lead to new one-time funding increases of \$100 - \$200 million at May Revise.

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

1. There are many overlapping agencies including 15 CCC economic development regions, 49 workforce investment boards, and 70 adult education consortia as well as numerous other ad-hoc grouping emerging from recent grant initiatives (such as the Career Pathways Trust program). Having so many overlapping agencies creates significant duplication for workforce development providers and makes creating coherent programs much more logistically challenging. The Analyst notes that the Governor's proposals could further fragment workforce efforts by augmenting certain existing programs while simultaneously creating new programs with similar work force objectives which is counterproductive and results in additional redundancies and inefficiencies in the state's workforce development system. He recommends that more work is needed to unify workforce development efforts.

2. The Governor does not clearly articulate the justification for the \$125 million to account for unallocated “increased operating expenses” which means that the “Legislature will have difficulty assessing whether the augmentations are needed and ultimately whether any monies provided would be spent on the highest state priorities.”

3. The focus on CCC Student success is warranted, but the approach may be too limited. The analyst believes that the Governor’s approach is too narrowly focused because the state funds specific types of support for CCC students through eight separate categorical programs. Providing more flexibility to use student support funds would enable colleges to allocate funding in a way that best meets the needs of their students. Also, the Legislature could explore ways to make improvements in student outcomes a factor in the allocation of support services funding.

QUESTIONS FOR DISCUSSION

Questions for discussion:

1. In light of the LAO’s comment related to the potential for additional revenues to be revealed with the Governor’s May Revise, does the board wish to prioritize augmentations within the Administration proposal or identify other system priorities?
2. How should the community colleges respond to the Legislative Analyst’s suggestion that student success categories are too narrowly focused and more flexibility should be provided to enable colleges to allocate funding in a way that best meet their students’ need? And how should the colleges respond to the suggestion that the Legislature explore ways to make improvements in student outcomes a factor in the allocation of support services funding?
3. Should the League/the colleges take any role in the signature campaign to place a GO bond measure on the November 2016 ballot, given that the proposal negates the Governor’s proposed increased tools for local K-12 use in lieu of a state GO bond?
4. How should the system respond to the overall critique by the LAO which expresses concern with unallocated resources and suggestions that the highest priorities may not be met?
5. Would the board rather that staff work to:
 - a) Postpone the effective date of the new growth allocation formula for one year (i.e., 2016-17 instead of the current requirement that it take effect in 2015-16); or
 - b) Participate in committees/groups to amend the formula so that growth need and demand are “in synch” and allow the formula to take effect in Fall 2015?

FEDERAL ISSUES

President Obama's No Tuition Proposal for Community Colleges

Earlier this month President Obama announced a proposal to fund the first two years of community college tuition for students who have at least a 2.5 GPA and attend school at least half time. While this proposal has stirred much conversation, more details are needed to determine the effect, if any, this proposal would have on California's community college students. It is important to note that California already has by far the lowest tuition in the country and 60% of our students do not pay any tuition due to use of the BOG fee waiver.

Known Details:

- Eligible students must attend school at least half-time and maintain a 2.5 GPA.
- Eligible students must major in: academic programs that fully transfer credits to public four-year institution; or occupational training programs with high graduation rates that lead to in-demand degrees and certificates.
- Federal funding would cover three-quarters of a student's tuition, with the state picking up the remainder.

Unknown Details

- A funding source for this plan, which is estimated to cost \$60 billion over the next ten years, has not been identified.
- In order to be eligible for funding, colleges will need to enact policy changes such as portion of funding being performance based, reduce the need for remediation and better coordination with high schools. The exact nature of these policy changes is unknown.
- Colleges that already charge low tuition will have a lower match requirement than what is in the proposal. We do not know what that match requirement is.

The White House link to President Obama's proposal is available at:

<http://www.whitehouse.gov/blog/2015/01/08/president-proposes-make-community-college-free-responsible-students-2-years>

The Institute for College Access and Success (TICAS) is skeptical of this proposal's focus upon lowering tuition for community college students without considering the other costs of attendance or the economic need. Their analysis is available at:

<http://views.ticas.org/?p=1421>

Federal Accountability Framework

In 2014, President Barack Obama has proposed that, by 2018, the federal government would begin to use a ratings system to measure the “value” of colleges by holding them accountable for their affordability, their accessibility to low-income families, and their student outcomes through a version of a “scorecard” and to possibly use this “scorecard” to direct some or all of the \$150 billion in federal aid.

The initial draft framework for a scorecard was released in mid-December and included the following criteria:

ACCESS

- Percentage of students who receive federal Pell Grants
- Percentage of students who are the first in their family to attend college
- Average gap between the cost of attending and the amount of financial aid a student receives

AFFORDABILITY

- Average price after all federal, state and institutional aid is factored in
- Price difference for students who receive financial aid and those who do not

OUTCOMES

- Completion rates
- Transfer rates (for community colleges)
- Employment and earnings after graduation
- Graduate school attendance
- Student loan repayment rate

Analysis/Responses to date

The Chancellor’s Office had a representative on this accountability committee but withdrew him on the belief that the California Community College Scorecard is more accurate and efficient as an accountability measure.

In addition, the bulk of higher education observers (including ACCT) have questioned the proposal, noting for example that this initial draft is “surprisingly tentative, filled with verbs like ‘exploring’ and ‘considering.’” While the access variables are considered to be the best developed because the variables are straightforward (e.g., percentage of students receiving Pell Grants has been reported for a long time; first-generation college status can be calculated directly from FAFSA), the scorecard has more difficulty in determining measures of affordability. Its measures of affordability which are “under consideration” are considered flawed. And the

flaws in its measures of student success are “most evident” due to flawed graduation rate data in the federal data banks.

There are other criticisms on this framework (which some are referring to as “less a rough draft than a bare-bones outline”), and there is also great skepticism that the ratings system is no more than a “pipe dream.” Consequently, staff will continue to monitor this situation, but we believe that there is far too much uncertainty at this time to warrant further analysis.