



ACCCA AND ACBO

The Association of California Community College Administrators
and The Association of Chief Business Officials

present

*The Annual Workshop on the
Governor's Proposed Budget
2018-19*

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a potential slow down, the Governor's State Budget proposes fully funding the Rainy Day Fund and allocating the majority of the revenue surplus to one-time expenses. The State Budget is clear that fully funding the Rainy Day Fund may not eliminate the need for spending reductions should a recession or federal policy changes come to pass, but it should allow for the softening of potential cuts and/or shortening of the length of time any potential cuts would be effective.

At the national level, the stock market has reached an all-time high with no signs of slowing down. All three major indices reached new levels the first week in January, with the Dow Jones surpassing 25,000 for the first time. In spite of the Federal Reserve's continued interest rate hikes, housing prices continue to rise and mortgage rates remain historically low. Wages are increasing and the unemployment rate for both the nation and California dropped to 4.6% and 4.1%, respectively, further narrowing the gap between the two. In addition, the country added 228,000 jobs in November 2017 and, as previously noted, the Governor's State Budget anticipates modest growth for the California economy.

State Revenues

The Governor's State Budget presents a rosy picture, with revenues higher than projections. Total state revenues are higher year over year, and the economy continues to grow, though modestly. The higher revenues, as expected, are due largely to an increase in personal income tax collections with sales and use tax also seeing an increase over those estimated by the DOF in the adopted 2017-18 Budget Act.

The Legislative Analyst's Office (LAO) forecast released in November 2017 also estimated a significant increase in General Fund revenues. The LAO continued to provide two long-term estimates—one based on an economic growth scenario and another based on a mild recession scenario. Under the economic growth scenario, the State Budget will retain a surplus, with increases in revenues from the personal income tax driving the majority of the growth, while the recession scenario reflects a roughly \$80 billion revenue loss, compared to the growth scenario, over the three fiscal years between 2019-20 and 2021-22.

Proposition 98

Adopted by state voters in 1988, Proposition 98 sets in the State Constitution a series of complex formulas that establish the minimum funding level for K-12 education and community colleges from one year to the next. This target level is determined by prior-year appropriations that count toward the guarantee and (1) workload changes as measured by the change in average daily attendance (ADA), and (2) inflation adjustments as measured by the change in either per capita personal income or per capita state General Fund revenues, whichever is less. Over the last several years, Proposition 98 has provided significant gains to schools and community colleges as funding cuts endured through the Great Recession have been restored.

Current-Year Minimum Guarantee

For the current year, the Governor's State Budget acknowledges that revenues are higher than projected in the adopted 2017-18 Budget Act, resulting in the increase of the current-year

minimum guarantee. For the current year, the Proposition 98 guarantee is now estimated at \$75.2 billion, up approximately \$700 million from the enacted level.

Proposition 98 also requires the state to account for state funding that falls below the long-term target established by Test 2 (i.e., adjustments required by annual changes in per capita personal income). This cumulative shortfall is termed Maintenance Factor. The Governor's State Budget notes that as of the end of 2017-18, the Maintenance Factor will be down to \$228 million, as the Budget proposes a payment of \$1.12 billion in the current year.

2017-18 Minimum Guarantee

For 2018-19, the Governor's State Budget proposes a Proposition 98 guarantee of \$78.3 billion, an increase of \$3.1 billion year over year. The guarantee is based on Test 3, the change in per capita General Fund revenues, plus 0.5%, and the change in K-12 ADA, which is expected to decline in the budget year. The Governor's State Budget notes that an additional \$92 million in Maintenance Factor will be created—due to it being a Test 3 year—totaling just over \$320 million at the end of 2018-19.

Community College Proposals

The most significant proposals to the 2018-19 Governor's Budget are new initiatives that have been the subject of some recent discussions: a new funding formula for general apportionments and an online California community college.

New Funding Formula

The Governor proposes \$175 million to fund the transition of community colleges to a new Student-Focused Funding Formula for general apportionments, which has some similarities to the K-12 Local Control Funding Formula (LCFF) that was implemented beginning in 2013-14. The proposed formula is composed of:

- **Base Grant (50% of funding)**—based on enrollment using a per-full-time equivalent student (FTES) funding rate, similar to the current general apportionment calculation
- **Supplemental Grant (25% of funding)**—based on the number of low-income students; those who receive a College Promise Grant (formerly Board of Governors) fee waiver or Pell Grant
- **Student Success Incentive Grant (25% of funding)**—based on the number of degrees and certificates granted and the number of students completing them in three years or less, with additional funds for each Associate Degree for Transfer granted

Along with this new formula the Governor is proposing requirements that community colleges incorporate the goals of the Vision for Success within each college's educational master plan and align each college's budget with that plan (similar to the Local Control and Accountability Plan and budget requirements for K-12 education under the LCFF).

The proposed Student-Focused Funding Formula includes a hold harmless provision that ensures that no district receives less funding in 2018-19 than is allocated through the general

apportionment in 2017-18. Thereafter, the hold harmless provision is determined based upon the 2017-18 per-FTES general apportionment funding multiplied by the FTES for the year for which funding is being calculated.

Also, the Chancellor's Office is urged to consult with stakeholders to develop a proposal for consolidating categorical programs in time to be considered for the May Revision. When the LCFF was implemented for K-12 education, over 40 categorical programs were eliminated and the funding was rolled into the LCFF. However, the Administration has stated that this is not the intent for community colleges—rather, the Administration is interested in consolidating the programs while keeping them restricted.

California College Online

The Governor proposes \$120 million (\$20 million ongoing) to create a fully online community college that would focus on vocational training, career advancement opportunities, and credentialing for careers in child development, the service sector, advanced manufacturing, healthcare, in-home supportive services, and other areas. The enrollment focus would be on working adults that are not currently accessing higher education.

Apportionment funding for the fully online college would take into account student enrollment and the number of underrepresented students enrolled in the college, and would encourage the online college to focus on student success. Reflecting some of the concerns shared while this concept was discussed over the fall, the college will not impact traditional community colleges' enrollment because its enrollment base will be working adults that are not currently accessing higher education.

Other General Apportionment Proposals

In addition to the \$175 million proposed for transitioning to the new funding formula, the Governor's 2018-19 State Budget proposal provides the following for general apportionments:

- \$161.2 million increase to fund the estimated 2.51% statutory cost-of-living adjustment (COLA)
- \$60 million increase to fund 1% growth
- \$73.7 million decrease to reflect unused 2016-17 growth
- \$5.4 million increase for offsetting enrollment fee revenues
- \$230.2 million decrease to offset local property tax revenues

Similar to last year, the Governor does not propose any one-time discretionary funds for 2018-19—funds that have historically been counted as paying down outstanding state mandate claims. Also, consistent with the Governor's prior proposals, there is no proposed change to current fee levels for the California Community Colleges (CCCs).

Workforce Programs

The Governor proposes \$212 million for K-12 education to expand Career Technical Education programs aligned with the goals of the Strong Workforce Program. The Governor also proposes:

- \$20.5 million for a COLA for the Adult Education Block Grant program, along with \$5 million for a shared data collection and accountability system
- \$17.8 million in ongoing funds for K-12 and community college apprenticeship programs, along with \$30.6 million in one-time funds to backfill shortfalls in the reimbursements provided from 2013-14 through 2017-18
- \$2 million to fund certified nursing assistant programs

Other Programs

The Governor's 2018-19 State Budget proposals for other community college programs include:

- \$275.2 million in one-time funds for deferred maintenance, instructional equipment, and specified water conservation projects, with no matching funds requirement
- \$46 million to support the implementation of the California College Promise program, which rescinds the \$46 per unit fee for all first-time resident students enrolled in 12 units or more per semester during their first year
- \$44.9 million in Proposition 51 bond funds for 5 new and 15 continuing facilities projects
- \$32.9 million to consolidate the Full-Time Student Success Grant and the Completion Grant programs, increasing the grant amounts and shifting to a per-unit per-semester/per-year grant; the proposed unit range is between 12 and 15 units per semester or 24 and 30 units per year
- \$20 million in one-time funds for the Innovation Awards program for grants focused on enhancing equity
- \$7.3 million to fund the 2.51% COLA for Disabled Student Programs and Services, Extended Opportunity Programs and Services, California Work Opportunity and Responsibility to Kids (CalWORKs), and Child Care Tax Bailout programs
- \$2 million for the Chancellor's Office to fill vacant positions and further support the local colleges in improving student success

Other Policy Initiatives

The Governor's proposal includes imposing a new requirement on nonprofit institutions with students receiving Cal Grants that, starting in 2019-20, the sector must admit at least 2,500 students who have earned Associate Degrees for Transfer from the community colleges, and they must be guaranteed junior standing. Starting in 2020-21 this requirement increases to 3,000 students.

community college, which will ensure a strong workforce pipeline. However, at a proposed investment of over \$100 million, it will be critically important for the Legislature to see and assess the details of this proposal.

**—Assembly Member Jose Medina (D-Riverside), Chair
Assembly Higher Education Committee**

Governor Jerry Brown's final budget proposal embodies what has made him one of our state's most successful governors in history — his fiscally prudent budget saves for a rainy day and makes historic investments needed to make us the most prosperous state in the nation.

The Governor's proposed budget is a good starting point to make needed investments in public education — from early childhood education, K-12 schools to higher education. I am especially encouraged by his proposals to expand pre-K programs, fully fund the Local Control Funding Formula and support career technical education. The Governor also makes good on his commitment to make the first year of community college free for all California students. This is a huge win for students and our economy.

**—Assembly Member Kevin McCarty (D-Sacramento), Chair
Assembly Budget Subcommittee on Education Finance**

I applaud the Governor and his proposed budget for 2018-2019, which continues to prioritize California's K-12 and Higher Education while ensuring future fiscal stability with the increase to the Rainy Day Fund. I am particularly happy the budget increases money for higher education and does not raise tuition. The budget also proposes an investment with \$46 million allocated for first time community college tuition waivers and \$3 billion for the Local Control Funding Formula. As the Chair of the Senate Budget and Fiscal Review Subcommittee on Education, I look forward to beginning the process to create the proposed California Online College and what it would look like.

**—Senator Anthony J. Portantino (D-La Cañada Flintridge), Chair
Senate Budget and Fiscal Review Subcommittee on Education**

Education Stakeholders

California community colleges are serving 2.1 million students each year, but we are still not meeting the needs of 2.5 million others who for a variety of reasons cannot attend classes on our campuses. It's our responsibility to bring the campus to them, and we can do that through a fully online college.

—California Community Colleges Chancellor Eloy Ortiz Oakley

Governor Brown's budget proposal provides a big boost to our public school students. The proposal shows how far we have come as a state in the past seven years in increasing investments in education so our students can continue to succeed in college and the 21st Century economy.

—State Superintendent of Public Instruction Tom Torlakson

While FACCC is grateful to Governor Brown for his continued support of the California Community College system it is extremely concerned about embracing a formula which could shut out vulnerable students who cannot complete educational goals within prescribed time periods. Additionally, FACCC is disappointed in the absence of funding for such priorities as full-time faculty hiring, support for part-time faculty categoricals, and professional development as academic infrastructure must be the top priority in these budget discussions to achieve student success. Further, FACCC opposes a wholesale consolidation of categorical programs, and calls upon the Legislature to recognize the amazing (and documented) track record of our statewide student service programs.

—Faculty Association of California Community Colleges

In the final state budget of his tenure, the Governor sent a clear message to colleges that he expects significant changes in both the delivery and the state's financial support of education with increased attention to student outcomes. The 2018-19 budget acknowledges the need to prepare Californians for economic instability and uncertainty through timely access to meaningful degrees and credentials.

—Larry Galizio, Community College League of California