

**CALIFORNIA COMMUNITY COLLEGES
CHANCELLOR'S OFFICE**

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Colleagues,

This morning the Governor released his initial budget proposal for the 2016-17 fiscal year. According to the Department of Finance, the outlook for K-14 education is positive, if not to the degree seen in the 2015-16 fiscal year. While we will receive more detailed information in the coming days and weeks, I thought it important to communicate the key highlights of the Governor's initial budget proposal with a particular focus on the California Community Colleges.

The Big Picture

As in recent years, the state's revenue outlook continues to improve. The total General Fund revenues for 2016-17 are estimated at \$124.2 billion, up from a revised base of \$120.2 billion budgeted for 2015-16. Governor Brown remains cautious about overextending expenditures in light of the state's history of boom and bust cycles. To that end, the Executive Summary places an emphasis on the extent to which the increase in revenues is attributable to the volatile source of capital gains. Broadly, the Governor's proposal for the state puts a focus on paying down debts, addressing poverty, and climate change.

Proposition 98

The Proposition 98 minimum guarantee is estimated to grow to \$71.6 billion in 2016-17, up from the \$68.4 billion assumed as part of the 2015-16 budget agreement. The Department of Finance estimates that 2016-17 will be a Test 3 year, and it is our understanding that the colleges receive the traditional 10.93% share of the total Prop 98 pot. Additionally, the minimum guarantee increased significantly for the 2015-16 fiscal year (from \$68.4 billion to \$69.2 billion) and to a lesser extent for the 2014-15 fiscal year. This results in additional one-time funding for colleges which will be addressed below.

Community Colleges

The Higher Education section of the Executive Summary focuses attention on some key priorities of the Governor, specifically student success and program completion, the use of technology to improve efficiency and student outcomes, and improving time to degree. As you will see below, these priorities are reflected in many of the funding proposals.

The highlights of the budget for the colleges are as follows:

- **Access** - \$114.7 million for increased access. This is an increase of roughly 2 percent, sufficient to expand access by close to 50,000 students (headcount).

- **COLA** -\$29.3 million for a COLA of 0.47 percent. Note that this represents a significant difference from the 1.99 percent the LAO had estimated in November. Certain categorical programs also receive a COLA, including EOPS, DSPS, CalWORKs and the Child Care Tax Bailout.
- **Workforce** -\$200 million added to the EWD item to improve and expand efforts for workforce, consistent with recommendations made by the Task Force on Workforce, Job Creation and Strong Economy. These funds will likely be distributed on a formula basis in the initial year, but may shift to a regional allocation where colleges funding will be determined based on certain accountability measures. More details on allocations will be known when the trailer bill language is released at the end of January.
- **CTE Pathways (SB 1070)** - \$48 million is funded for this program on an ongoing basis. The Governor's intent is to repeal the sunset date for this program to make it permanent.
- **Basic Skills** – \$30 million increase to the existing Basic Skills categorical to incentivize and support colleges that successfully implement research-based practices that transition students from basic skills to college-level programs. More details on program criteria and the funding allocation model will be known when the trailer bill language is released at the end of January, but we are told that the increase is ongoing and the allocation model will include a hold harmless provision so that no college will receive less in the future than they currently receive, despite changes to the allocation methodology.
- **Maintenance and Instructional Equipment** - \$289 million is provided for SMSR. Similar to the funding provided in 2015-16, districts will have the flexibility to distribute funds among maintenance, instructional equipment, and drought response activities. No local match is required. We understand approximately \$255 million of these funds are from ongoing resources.
- **Data Security** - \$3 million is added to the TTIP program for the purpose of enhancing data security.
- **Institutional Effectiveness** -\$10 million is added to the Institutional Effectiveness program, in part, to augment support of technical assistance to the colleges.
- **Proposition 39** - \$45 million is provided for energy efficiency projects and workforce development consistent with the intent of Proposition 39.
- **Apprenticeship** - \$1.8 million is provided for the purpose of providing parity to apprenticeship rates relating to various general purpose funding augmentations received by colleges in 2015-16 (e.g., the general operating expense funds, funds for full-time faculty hiring).
- **Cal Grant** - \$39 million is continued for the Full-Time Student Success Grant, which provides supplemental financial assistance to Cal Grant B recipients taking 12 units or more.
- **Innovation Awards** - \$25 million is proposed for grants related to innovative practices in community colleges. More details on criteria will be released with the trailer bill. This item is proposed on a one-time basis, though the funding comes from ongoing resources.
- **Zero Textbook Cost Degree** - \$5 million is provided to incentivize programs that have no costs to students for the use of textbooks. More details on these grants are expected when the trailer bill is released later this month. This item is proposed on a one-time basis, though the funding comes from ongoing resources.
- **Fees** – No fee increases are proposed at this time.

One-time Funding

- **Mandate Reimbursements** - \$76 million in one-time funding is provided on a per-FTES basis to retire outstanding mandate claims.

As mentioned above, Governor Brown is very concerned about the extent to which capital gains are fueling the state's revenue increases. To this end, the amount of ongoing funding proposed for maintenance and equipment is noteworthy, as these funds provide something of a cushion in the event this year's revenues are not sustainable. Between this and the one-time funding provided for mandate reimbursement, the Governor's proposal continues a long-term focus on paying down debt.

Notes of Caution

While the 2016-17 fiscal year appears to be a strong one for the California Community Colleges, we need to remember that districts will face substantial challenges in the coming years due to increases in the STRS and PERS employer contribution rates. Further, these increases will need to be addressed by colleges at the same time that Proposition 30 revenues phase out (the sales tax provision expires on December 31 of this year and the income tax provision expires at the end of 2018). Moreover, many districts also face large OPEB liabilities.

The 2015-16 budget provided an augmentation of \$266.7 million for general operating expenses, in part, to help districts manage those pressing issues. No such discretionary increases are proposed at this time for 2016-17. When planning expenditures for the 2016-17 year, districts need to look carefully ahead to the growing retirement obligations and potential slowdown in revenues as Proposition 30 phases out. Overcommitting to ongoing obligations in the short term may lead to budget difficulties in the near future if districts do not plan appropriately.

Next Steps

The release of the January proposal is a big step, but only the first step on the road to a final budget. Next steps include an analysis of the budget proposal by the Legislative Analyst's Office, and a review by legislative committees. Revenues will be revised in May before a final budget is likely passed in June. We will keep you updated on important developments throughout the process.

Included with this memo are two attachments, one detailing the scheduled rate employer contribution rate changes for PERS and STRS and the other detailing total CCC expenditure adjustments per the Governor's initial proposal.

Regards,
Dan Troy

Vice Chancellor, College Finance and Facilities Planning
California Community Colleges Chancellor's Office

Program	2015-16 Budget Act	2016-17 Governor's Budget	Change	2016-17 Budget Request
Ongoing				
Base	5,902,741,000	6,345,179,000	(104,053,000)	-
Growth	156,457,000	114,668,000	114,668,000	175,000,000
COLA	61,022,000	29,293,000	29,293,000	100,000,000
General Operating	266,692,000	-	-	250,000,000
Full-time Faculty	62,320,000	-	-	80,000,000
Apportionment	6,449,232,000	6,489,140,000	39,908,000	605,000,000
Academic Senate	468,000	468,000	-	200,000
Apprenticeship	51,924,000	53,750,000	1,826,000	-
Basic Skills Innovation	20,037,000	50,037,000	30,000,000	-
CalGrant B Supplement	39,000,000	39,000,000	-	-
CalWORKs Services	34,897,000	35,061,000	164,000	8,683,000
Childcare Campus Tax Bailout	3,384,000	3,400,000	16,000	3,452,000
Economic Development	22,929,000	270,929,000	248,000,000	200,000,000
Energy Efficiency (Prop 39)	38,737,000	45,160,000	6,423,000	-
Extended Opportunity Programs & Services	123,189,000	123,768,000	579,000	-
Faculty and Staff Diversity (EEO)	767,000	767,000	-	980,000
Financial Aid Administration	70,727,000	68,363,000	(2,364,000)	1,500,000
Fiscal Crisis & Management Assistance Team	576,000	576,000	-	-
Foster Care Education	5,254,000	5,254,000	-	-
Fund for Student Success	3,792,000	3,792,000	-	2,366,000
Institutional Effectiveness	17,500,000	27,500,000	10,000,000	15,000,000
Lease-Revenue Bond Payments	55,568,000	47,095,000	(8,473,000)	-
Mandates Payments	31,823,000	32,570,000	747,000	-
Nursing Support	13,378,000	13,378,000	-	-
Part-time Faculty Compensation	24,907,000	24,907,000	-	25,921,000
Part-time Faculty Health Insurance	490,000	490,000	-	510,000
Part-time Faculty Office Hours	3,514,000	3,514,000	-	3,658,000
Student Equity	155,000,000	155,000,000	-	50,000,000
Student Senate	-	-	-	200,000
Student Success & Support	285,183,000	285,183,000	-	-
Students with Disabilities	115,388,000	115,930,000	542,000	-
Technology Infrastructure (TTIP)	19,890,000	22,890,000	3,000,000	22,000,000
Technology Initiatives (OEI, EPI, CAI)	24,000,000	24,000,000	-	-
Transfer and Articulation	698,000	698,000	-	726,000
Categorical Total	1,163,020,000	1,453,480,000	290,460,000	335,196,000
Ongoing Total	7,612,252,000	7,942,620,000	330,368,000	940,196,000

Program	2015-16 Budget Act	2016-17 Governor's Budget	Change	2016-17 Budget Request
One-time				
Physical Plant & Instructional Equipment	148,000,000	289,516,000	141,516,000	Priority Area
Basic Skills Innovation	70,000,000	-	(70,000,000)	-
Mandates Backlog Payments	632,024,000	76,307,000	(555,717,000)	Priority Area
Financial Aid Administration	3,000,000	-	(3,000,000)	-
BA Pilot	6,000,000	-	(6,000,000)	-
CTE Pathways (SB 1070)	48,000,000	-	(48,000,000)	-
Zero Textbook Cost Degree	-	5,000,000	5,000,000	-
Innovation Program	-	25,000,000	25,000,000	-
One-time Total	907,024,000	395,823,000	(511,201,000)	-
Funding Sources				
Apportionment	6,449,232,000	6,489,140,000	39,908,000	
General Fund	2,523,473,000	2,204,742,000	(318,731,000)	
Local Property Taxes	2,613,151,000	2,856,108,000	242,957,000	
Student Enrollment Fees	416,087,000	425,560,000	9,473,000	
Education Protection Account (Prop 30)	884,839,000	994,926,000	110,087,000	
Federal Oil & Mineral	11,682,000	7,804,000	(3,878,000)	
Notes:				
1) Adult Education Block Grant (\$500 million in both years) is not included in the chart since it is split between CCCs and K-12.				
2) \$288 million of the \$399 million for one-time programs is from 2016-17 Prop 98 resources.				

**Employer Pension Rates
2013-14 to 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%