

Governor's Proposals for the 2013-14 State Budget and Education

ACCCA/ACBO 2013 Budget Workshop

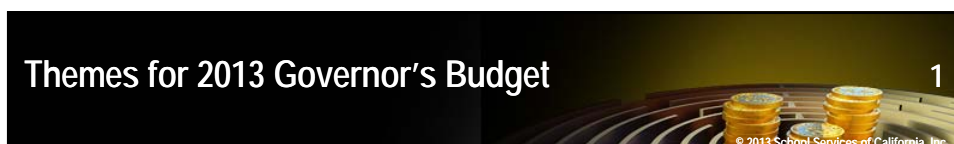
A 3D maze with several stacks of gold coins placed inside it. The maze is dark with light-colored walls, and the coins are bright yellow.

Governor's Proposals for the 2013-14 State Budget and Education

Association of California Community College Administrators/
Association of Chief Business Officials
2013 Budget Workshop

Presented by
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Chief Executive Officer

School Services of California
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Themes for 2013 Governor's Budget

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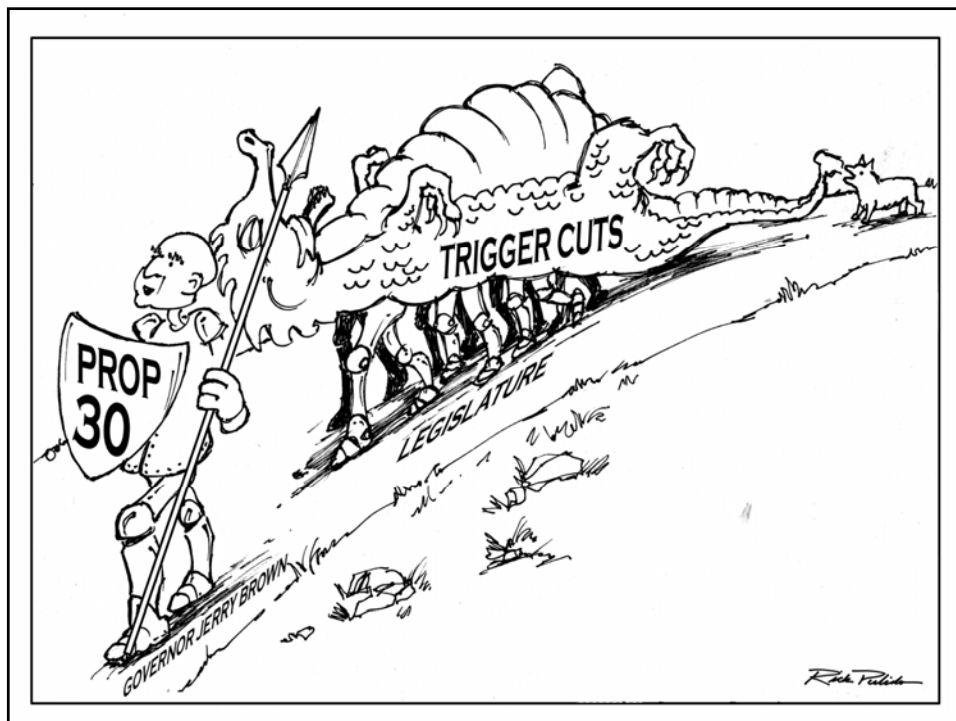
- For the first time in five years, cuts are not proposed or threatened
- Passage of Proposition 30* provides opportunities and options
- Economics still place boundaries on funding expectations
- Even slightly higher funding drives expectations to an unrealistic level
- Our state has suffered greatly from the Great Recession
 - We have proven we can survive it
 - But can we thrive and regain our competitive advantages?
- We still have plenty of challenges, but there are opportunities to be seized as well
- As in the ancient proverb, "Will our students learn to be dependent on others or will we choose to teach them to fish and make them independent?"

* Schools and Local Public Safety Protection Act of 2012 (sponsored by Governor Jerry Brown)

Education Receives More . . .

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- The Legislative Analyst's Office (LAO) forecasts that the Proposition 98 guarantee will grow at a 3.4% to 5.3% rate over the next several years
 - Other forecasts have proven to be overly optimistic
 - But even if this forecast proves to be correct, a continuation of past manipulations of Proposition 98 could strangle education funding
- The Governor continues to deal with the "wall of debt," but does not dedicate all of the growth in Proposition 98 to this single purpose
- Our past "glory years" were fueled by one of the most highly educated workforces in the world
- We have a long way to go if we are to recapture that reputation



Passage of Proposition 30 Provides Opportunities and Options

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- The recent passage of Proposition 30 can be largely attributed to the Governor's leadership and the education community uniting for passage
- It provides a narrow window during which further Budget cuts are avoided and some hope of future gains is offered
- But this window is a temporary solution; how we use this opportunity matters
 - Thus far, state and federal sources of funding have been used to buffer those most negatively affected by the economic collapse
 - But we believe that now is the time to channel funding into those areas that truly make a difference in the long term
- Public education is a game changer
 - Now is the time for a shift in state policy toward preparation of our population for what is sure to be a challenging future
- Proposition 30 is an investment in our future by taxpayers
 - If we use Proposition 30 for consumption spending, we will have missed a huge opportunity to move our state forward

Economics Still Rule

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- State policy is important, but the revenues that give the state options are driven by economics
- The economy is no longer shrinking, but it is not growing at a recovery rate
 - Employment numbers are still fragile
 - Both the state and federal governments face ongoing economic challenges
- The state has choices
 - Wait and hope for recovery?
 - Take actions that drive the recovery?
 - The Governor is trying to drive change
- Many of the problems we see are international, structural, and long term
- This economy is fragile and we need to treat it gently

More Funding Leads to Higher Expectations

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- The first significant increase in funding in five years creates higher expectations
 - Funding is still almost \$600 million less than the amount received in 2007-08
 - Cost-of-living adjustments (COLAs) have not been paid since 2007-08
- But pent-up demand for dollars will be strong
 - Bargaining units have made sacrifices and want to share in gains
 - Boards will want to restore programs and course sections
 - The cost of built-in increases for health benefits and seniority-driven pay raises remains high
- As a result, it is unlikely that all expectations will be met
 - We are still at the beginning of a turnaround, not the end

Now is the Time to Begin the Long Climb Back

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- The economic downturn has had its foot on our neck for far too long
- We need to focus on what we do have, not what we wish we had
 - The economy is still a factor, but it is improving slowly
 - Policy decisions need to be focused on the longer term
- Proposition 30 provides a short window for longer-term action
 - We need to focus on restoring California's educated workforce
 - Our state has to become more "business friendly" – we cannot have the resources we once had without offering businesses the advantages we once offered
 - Job creation has to be a major priority if we are to grow the economy
- California cannot accept creation of a class of "permanently poor" citizens who never recover from the recession
- We need to start rebuilding now – and it starts with public education

U.S. Economic Outlook

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- The U.S. economy continues to be plagued by slow growth, even though the recession was officially declared over in June 2009
- The threat of falling off of the so-called "fiscal cliff" – \$600 billion in higher federal taxes and spending cuts – has been avoided in large part
 - The Congress and the President have agreed to avoid raising taxes on all but the top income earners
 - However, the payroll tax cut was allowed to expire
 - Still unresolved, however, are the scheduled cuts to federal programs
- Global trends pose new risks
 - The economies of Japan and European countries are in recession and previously growing economies of China, Brazil, and India are slowing
 - This threatens U.S. exports
- Domestic developments are mixed
 - Hurricane Sandy will depress near-term growth
 - Housing and employment continue to improve



California Economic Outlook

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- California's economy is recovering slowly like the U.S. economy
 - Housing is on the upswing, with the median home price up 24% to \$341,000 from the recession low of \$275,000 in 2009
 - However, this is still below the 2007 peak of \$560,000
 - The state has added about 564,000 jobs of the 1.4 million that were lost in the recession
 - The state's unemployment rate dropped to 9.8% in November 2012, compared to 7.7% for the U.S.
 - On average, California added about 22,300 jobs per month over the last 12 months
- California's economy is vulnerable to the global slowdown, especially because of its significant export sector

Governor's Budget Solutions

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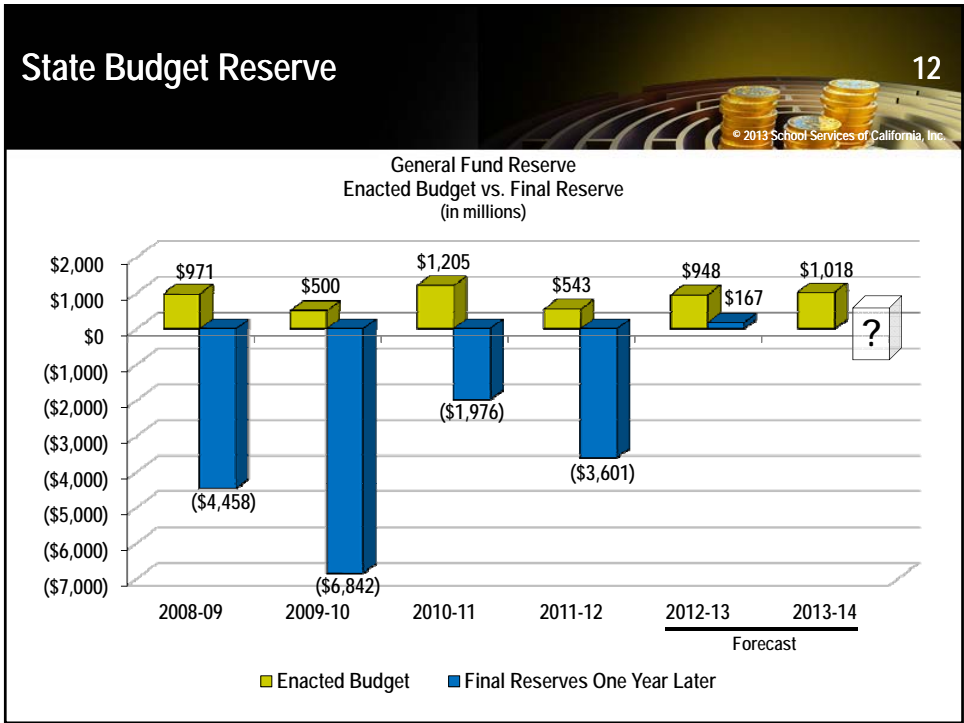
- Two years ago, the Governor faced a Budget gap of \$26.6 billion, with ongoing shortfalls projected in the range of \$20 billion annually thereafter
 - Major reductions in state expenditures, an improving economy and revenues, and additional revenues from Propositions 30 and 39 have combined to significantly improve the Budget outlook
- The Governor's Budget asserts that, absent any changes, projected revenues in 2013-14 will be sufficient to meet state expenditure demands, as specified in statute
 - It is important to note that, for most programs, statutory COLAs have been eliminated
 - Absent any expenditure reductions or additional revenues, the Budget would have no reserve

Governor's Budget Solutions

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- In order to establish a \$1 billion reserve for 2013-14, the Governor's Budget proposes the following actions:
 - \$364 million from extending the tax on Medi-Cal managed care plans
 - \$310 million from extending the hospital quality assistance fee
 - \$172 million in funds appropriated in 2012-13 above the revised Proposition 98 guarantee allocated to prepay obligations under CTA v. Schwarzenegger (the Quality Education Investment Act [QEIA])
 - \$104 million savings from suspending four new noneducation mandates
 - \$67 million from State Highway Account revenues to pay debt service on transportation bonds
- The Administration acknowledges that the Budget is balanced by only a narrow margin and that revenues from Proposition 30 are only temporary

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Governor's Policy Proposals for Community Colleges 13

- The Governor's Budget for 2013-14 reflects his objectives of local control, buying down the "wall of debt", course completion, and outcomes:
 - \$196.9 million (3.6%) increase in apportionment funds to be allocated by the Board of Governors:
 - Workload restoration?
 - Categorical program restoration?
 - Cost-of-living adjustment?
 - Deferral buy-down?
 - \$16.9 million for online education to increase the number of courses available through the use of technology

Governor's Policy Proposals for Community Colleges

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- Require Board of Governors fee waiver students to complete the Free Application for Federal Student Aid
 - Savings from expected reduced eligibility to be reinvested by college toward course completion
- Place caps on the number of units a student can take in all three segments of higher education
 - In the case of community colleges, the cap would be at 90 semester credit units
 - Students who exceed this cap would be required to pay the full cost of instruction
- Backfills for current-year redevelopment agency proceeds and local property taxes – but will it be enough?

Proposed Budget for Community Colleges

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- \$179 million in cross-year deferral buy downs
 - Reduces total deferrals from \$801 million to \$622 million
 - Requires one-time infusion – funds available again for 2014-15
- \$49.5 million for Proposition 39 energy efficiency projects
 - A new categorical program, distributed on an per-full time equivalent student basis
 - Regulations to be developed
- Change in census accounting to course completion
 - To be phased in over five years
 - Savings to be kept by college to reinvest in completion efforts

Adult Education Shift

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- Governor proposes shifting responsibility for Adult Education programs from K-12 school agencies to community colleges effective 2013-14
 - Proposal establishes a new \$300 million block grant
 - Funding would be allocated based on the number of adults served and funds could only be used for core instructional areas:
 - Vocational education, English as a second language, elementary and secondary education, and citizenship
 - "Mission" courses such as basic skills and workforce training
 - Students would be required to pay the full cost of all other courses
 - Community colleges are "encouraged to leverage the capacity and expertise currently available at K-12 district adult schools"
- In addition, the Governor's Proposal shifts \$15.7 million along with the responsibility for the Apprenticeship Program from school districts to community colleges

Risks to the Budget Proposal

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- Increased funding for public education is dependent upon a continued improved economy in the state and the nation
 - State and national economic growth are far from certain
 - California tax revenues are heavily reliant (more than 60%) on personal income taxes – making individual incomes very important to the State Budget
- Rising health care costs will continue to strain the State Budget
- Outstanding budgetary borrowing totaling \$35 billion will continue to limit the amount of available resources
- Other budgetary priorities could threaten resources designated for the Governor's Budget Proposal

Road to Adoption

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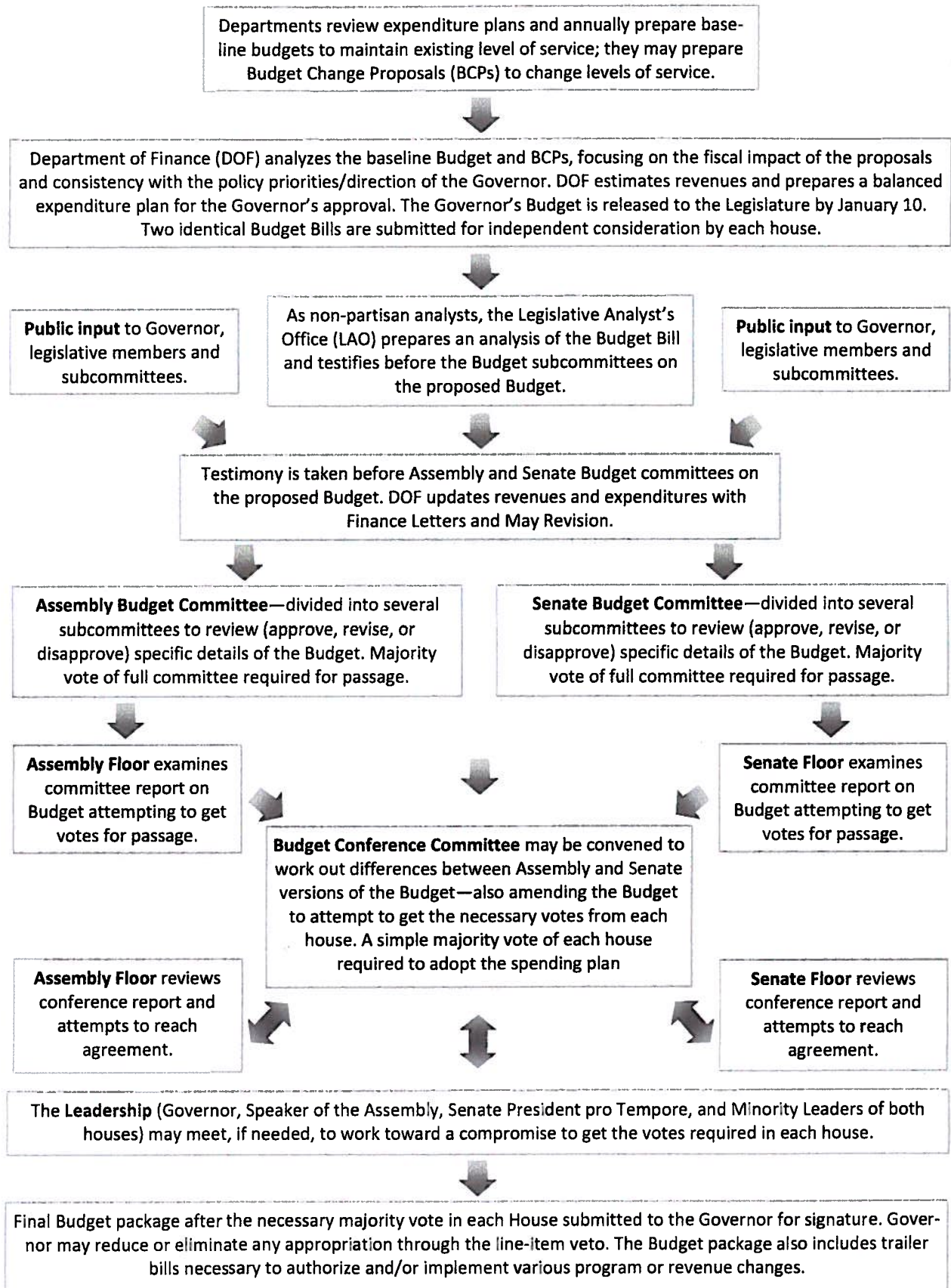
- As is true every year, the Governor's Budget Proposals mark the beginning – not the end – of the process
 - Both houses of the Legislature will consider the financial and policy implications of the Governor's plan
 - Over the next several months, we will hear reasons for both support and resistance to the Proposal on either a financial or policy basis
 - Governors, including this one, have modified or even dropped proposals they strongly support in order to achieve a greater goal
- The May Revision will surely be different than the economic picture upon which the Budget is based – will it be better or worse?

Final Thoughts

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- Recovery Starts Now!
 - When it comes to money, we don't have what we need
 - We don't even have what we once had, but the funding increase in the Governor's Budget is encouraging
 - We have a lot more than we would have had without the support of California's voters
- The promise of more money now and more later is exciting
- How many of us thought the state could balance its Budget this year?
 - Not many, but it happened
- How many think we can make historic progress in student success over the next few years?
 - The energy we put into dealing with negatives makes us stronger
- Recovery Starts Now!

THE ANNUAL BUDGET PROCESS



SSC Community College Financial Projection Dashboard Governor's 2013-14 Budget Proposal

This version of SSC's Financial Projection Dashboard is based on the Governor's 2013-14 State Budget Proposal. We have updated the COLA, CPI, and ten-year T-bill planning factors to reflect economic forecasts. We rely on various state agencies and outside sources in developing these factors, but we assume responsibility for them with the understanding that they are, at best, general guidelines.

Factor		2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Statutory COLA for Apportionments		3.24%	1.65%	2.20%	2.40%	2.70%	2.90%
Funded COLA		0.00%	0¹	2.20%	2.40%	2.70%	2.90%
Growth/Restoration Funding		\$50 million	3.6% (\$196.9 million)	Ongoing	Ongoing	Ongoing	Ongoing
State Categorical Programs		-\$313 ² million continued from 2009-10	Up to \$382.1 million	Ongoing	Ongoing	Ongoing	Ongoing
California CPI		2.30%	2.20%	2.40%	2.60%	2.70%	2.80%
California Lottery ³	Base Prop 20	\$124.25 \$30.00	\$124.25 \$30.00	\$124.25 \$30.00	\$124.25 \$30.00	\$124.25 \$30.00	\$124.25 \$30.00
PERS Employer Rate		11.417%	11.417%	11.417%	11.417%	11.417%	11.417%
Interest Rate for 10-Year Treasuries		1.85%	2.15%	2.40%	2.70%	2.90%	3.10%

¹ While a statutory COLA is projected, the Governor's Budget proposes a 3.6% increase to apportionments, to be allocated between workload restoration and a COLA as determined by the Board of Governors (see "Growth/Restoration Funding" line). Apportionment cuts unrestored as of this time, total \$525 million.

² Reflects \$315.7 million in Adult Education block grant funds, \$49.5 million in energy efficiency projects, and \$16.9 million in technology funds available. The categorical funding cuts itemized below are unrestored as of this time.

A 2009-10 cut of 32% (except as noted in list). Programs are "protected" because the funding restrictions and requirements remain.

Protected Programs

- Basic Skills
- CalWORKs (augmented 2009-10)
- Career-Technical Education (augmented 2010-11)
- Cooperative Agency Resources for Education (CARE)
- Disabled Students Programs and Services (DSPS)
- Extended Opportunity Programs and Services (EOPS) (48% cut)
- Fund for Student Success
- Foster Care Education (25% cut)
- Nursing Program Support
- Student Financial Aid Administration
- Telecommunications and Technology

A 2009-10 cut of 62% (except as noted in list). Programs are "unprotected" because, following a public hearing of the governing board, districts can redirect the funding to any other state categorical program, and funding restrictions and requirements are waived as a result through 2014-15. Funding allocations are proportional based on 2008-09.

Unprotected Programs

- Apprenticeship
- Campus Child Care Tax Bailout
- Economic Development
- Equal Employment Opportunity
- Matriculation
- Part-time Faculty Compensation (71% cut)
- Part-time Faculty Health Insurance
- Part-time Faculty Office Hours
- Physical Plant/Instructional Support (funding eliminated)
- Transfer Education and Articulation

³ The forecast for Lottery funding per FTES includes both base (unrestricted) funding and the amount restricted by Proposition 20 for instructional materials. Lottery funding is initially based on prior year actual annual FTES, and is ultimately based on current-year annual FTES.