AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Susan A. Bonilla, Chair

WEDNESDAY, APRIL 25, 2012

4:00 P.M. - STATE CAPITOL ROOM 126

OVERVIEW HEARING ON THE GOVERNOR'S PROPOSED FUNDING FOR THE CALIFORNIA COMMUNITY COLLEGE SYSTEM

INFORMATION ONLY

Recent Funding History for the California Community Colleges

Overview of the Governor's 2012-13 California Community Colleges Budget

ITEMS TO BE HEARD

BACKGROUND

RECENT FUNDING HISTORY FOR THE CALIFORNIA COMMUNITY COLLEGES

State budgets in recent years reflect vast and deep changes in funding levels for the state's 2-year public institutions. By way of context, the following is a summary of adopted budget reductions and policy changes to the California Community Colleges (CCC) as a result of past budget negotiations.

2008-09 BUDGET ACT

Overall Funding. The budget provided $6.4 billion in ongoing Proposition 98 funding for CCC in 2008–09, which is 10.9 percent of total Proposition 98 appropriations. This is $240 million, or 3.9 percent, more than the revised 2007–08 level. However, this year–to–year increase fell to about 2.7 percent when factoring in additional funding that was provided on a one–time basis for 2007–08 to address a shortfall in CCC local property taxes.

Enrollment and Base Budget Increases. Under the budget agreement, the CCC system received an augmentation of $114 million to fund new enrollment growth of 2 percent, or about 23,000 full-time equivalent student (FTE) students. (The community colleges are funded to serve a total of about 1.2 million FTE students in 2008–09). The budget also included $40 million to fund a 0.68 percent base increase for CCC. The enrollment and base budget increases applied only to CCC apportionments (general–purpose monies), and not to categorical programs.

Student Fees. The budget package made no change to student fee levels, maintaining it at $20 per unit. These fees are expected to generate over $290 million in revenue for the CCC system.

2007–08 Local Property Tax Backfill. The budget included a total of $74.9 million to compensate for a shortfall in CCC's local property tax revenues in 2007–08. This backfill is derived from three sources (the first two of which involve Proposition 98 funds): (1) a $47.3 million reappropriation of unspent CCC enrollment funds from 2006–07; (2) a $21.6 million reappropriation of unspent 2007–08 funds from K–12's ASES program; and, (3) $5.9 million in surplus 2007–08 student fee revenue.

Chancellor's Office. The Legislature provided the Chancellor's Office with $10.1 million in General Fund (non–Proposition 98) support for 2008–09. However, the Governor vetoed $331,000 of this amount, thereby reducing Chancellor's Office funding to $9.8 million. As a result, the Chancellor's Office experienced a slight decline (about $160,000) in funding compared to 2007–08 levels.

2009-10 BUDGET ACT

Overall Funding. The July 2009–10 budget package provided $3.7 billion in General Fund support for CCC. This is $434 million (10.4 percent) less than the 2007–08 level. However, some of this funding paid for costs incurred in different fiscal years. In addition, CCC received substantial funding from other sources, primarily local property taxes. When all funding sources are considered and counted toward the year in which costs are incurred, CCC's 2009–10 programmatic funding totals $6.5 billion, which is $189 million (2.8 percent) less than 2007–08, or $287 million (4.2 percent) less than 2008-09.

Proposition 98. Like K–12 education (but unlike the universities), CCC's General Fund support and local property tax revenue are subject to Proposition 98. For 2009–10, CCC receives $5.7 billion in Proposition 98 support, which is 11.2 percent of total state Proposition 98 spending. This reflected a reduction of $265 million (4.5 percent) from the revised 2008–09 level. In addition, the budget package established a maintenance factor obligation for CCC (as well as K–12) for payments in future years.

Deferrals. In 2008–09, the Legislature added $340 million to the existing $200 million in CCC funding deferrals. Thus, while community colleges incurred costs for certain programs in 2008–09, they did not actually receive these deferred state payments until early 2009–10. The budget package defers an additional $163 million from 2009–10 to 2010–11, thereby creating an ongoing deferral of $703 million annually.

No New Funding for Enrollment or Cost–of–Living Increases. The budget provided neither enrollment growth nor a COLA for CCC in 2009–10. This was the second consecutive year that community colleges have not received a COLA.

Base Apportionment Reductions. The budget reflected cuts totaling $140 million (about 2 percent) to Proposition 98 General Fund support for CCC apportionments (general–purpose monies). This included an unallocated reduction of $130 million as well as $10 million in savings from the elimination of the California High School Exit Exam remediation program.

Local Property Tax Backfill. The budget included a total of $63.3 million in General Fund support to partially compensate for an estimated $116.7 million drop in CCC's local property tax revenues in 2009–10 from earlier estimates. This backfill is derived from two sources: (1) a redirection of $58.3 million in funds previously intended for enrollment growth; and, (2) a $5 million reappropriation of unspent funds from prior years.

Student Fees. The budget package increased enrollment fees from $20 per unit to $26 per unit, which returned student fees back to their 2006 level. These higher fees are expected to generate $80 million in additional revenue for CCC, thereby mitigating the impact of reduced Proposition 98 support for apportionments.

Workload–Reduction Provision. The budget package included a provision that permitted community colleges to reduce the number of students they served in 2009–10 in proportion to the net reduction in base apportionment funding. Another provision expressed the Legislature's intent that any resulting workload reductions be limited as much as possible to areas other than basic skills, workforce training, and transfer–level coursework.

Categorical Cuts and Flexibility. The budget package reduced Proposition 98 support for categorical programs by a total of $263 million compared with revised 2008–09 levels. In order to better accommodate these cuts, 12 of CCC's 21 categorical programs were moved to a "flex item." From 2009–10 through 2012–13, districts were permitted to transfer funds from categorical programs in the flex item to any other categorical spending purpose.

2010-11 BUDGET ACT

Budget Provides Modest Programmatic Augmentation. The 2010–11 budget provided the CCCs with $5.8 billion in Proposition 98 monies. This reflected an increase of $108 million (1.9 percent) over the 2009–10 level. This year–to–year comparison can be misleading, however, because the 2010–11 amount included payments owed to community college districts in 2009–10 that were deferred until 2010–11. The budget package also included new deferrals from 2010–11 to 2011–12, as well as considerable funding for CCC from non–Proposition 98 sources. When all funding sources are considered and counted toward the year in which costs are incurred, CCC's 2010–11 programmatic funding totaled $6.6 billion, which is about $200 million (3.1 percent) more than 2009-10. The largest single programmatic augmentation ($126 million) provided new funding for about 26,000 enrollment slots.

Budget Expands Funding to Be Deferred to Later Years. The Legislature added new CCC funding deferrals in 2003–04, 2008–09, and 2009–10. The 2010–11 budget deferred an additional $129 million to 2011–12, thereby creating a total ongoing deferral of $832 million. (The Governor vetoed $60 million in additional deferrals).

Additional Funding for Career Technical Education Pathways Initiative. The budget augments support for the Career Technical Education Pathways Initiative, which is a grant program jointly administered by CCC and the California Department of Education. Total support for the program increases from $48 million in 2009–10 to $68 million in 2010–11.

Money for Mandates. The budget package suspended several CCC mandates. In addition, it provided a total of about $32 million in Proposition 98 "settle–up" funds to partially fund outstanding community college mandate claims. This is part of roughly $300 million the budget provided to K–14 education for outstanding mandate claims.

No Change in Fee Levels. The 2010–11 budget left student fees unchanged at $26 per unit. Fees were last increased in 2009–10, when they rose from $20 per unit to $26 per unit.

2011-12 BUDGET ACT

Overall Budget. The 2011–12 budget package provided the CCC system with $5.4 billion in Proposition 98 funding, which is 11.1 percent of total state Proposition 98 spending. This reflected a reduction of $419 million (7 percent) from the revised 2010–11 spending level.

Budget Defers More Funding to Later Years. The 2011–12 budget defers an additional $129 million to 2012–13, thereby creating a total ongoing deferral of $961 million. This represents about 17 percent of Proposition 98 funding for CCC.

Base Apportionment Cuts Coupled With Workload–Reduction Provision. The budget included a $400 million base reduction in Proposition 98 General Fund support for CCC apportionments (general–purpose monies), offset by an increase of $110 million in estimated fee revenue. The budget included a provision that permits community colleges to reduce the number of students they serve in 2011–12 in proportion to the net reduction in base apportionment funding ($290 million). The provision expresses the Legislature's intent that any resulting workload reductions be limited as much as possible to "courses and programs outside of those needed by students to achieve their basic skills, workforce training, or transfer goals."

Higher Student Fees to Mitigate Budget Cuts. The budget package increased enrollment fees from $26 per unit to $36 per unit beginning in the summer 2012 term. The budget assumes that these higher fees will generate $110 million in additional revenue for CCC, thereby mitigating the impact of reduced Proposition 98 General Fund support for apportionments.

Categorical–Program Flexibility Extended. The 2009–10 budget created a "flex item" so that, between 2009–10 and 2012–13, community colleges could transfer funds from about a dozen categorical programs to any other categorical spending purpose. The 2011–12 budget package extends this flexibility until the end of 2014–15.

Mandates. The budget provides $9.5 million in Proposition 98 monies for CCC mandates, and suspended 7 of CCC's 21 mandates. Two of these seven mandates were added in the 2011–12 budget (Student Records and Sexual Assault Response Procedures).

Trigger Cuts. If projected 2011–12 state revenues fall short by at least $1 billion, CCC's apportionment funding would be reduced by an additional $30 million. In addition, enrollment fees would be increased from $36 per unit to $46 per unit beginning in the summer of 2012, which is expected to generate sufficient revenues to backfill the $30 million cut. If projected 2011–12 state revenues fall short by more than $2 billion, CCC apportionments would be further reduced by $72 million. *The $102 million trigger was implemented on January 1, 2012.*

GOVERNOR'S 2012-13 COMMUNITY COLLEGES' BUDGET PROPOSALS

This agenda item is to provide the Subcommittee with background on the Governor's 2012-13 budget proposals for the California Community Colleges.

OVERVIEW OF THE GOVERNOR'S 2012-13 COMMUNITY COLLEGES' BUDGET

California Community Colleges (CCC) provides instruction to about 2.6 million students (fall headcount enrollment) at 112 colleges operated by 72 locally governed districts throughout the state. The State's *Master Plan for Higher Education* and existing statute charge the community colleges with carrying out a number of educational missions. The system offers academic and occupational programs at the lower division (freshman and sophomore) level, as well as recreational courses and pre-collegiate basic skills instruction. In addition, pursuant to state law, many colleges have established programs intended to promote regional economic development.

BACKGROUND

The Governor's Budget proposes for 2012-13 fiscal year, assuming voters approve the Governor's tax initiative in November 2012, that the community colleges would receive $5.8 billion in Proposition 98 General Fund, which is $459 million, or 8.6 percent, over the revised current-year level. This net augmentation includes:

- A technical adjustment of $129 million, which restores base funding to CCC following a prior-year deferral.
- An increase of $218 million to pay down existing CCC deferrals.
- A base increase of $97 million to account for lower-than-expected fee revenue in the current year.
- An increase of $12.5 million to create a proposed CCC mandate block grant.
- A workload adjustment of $14.3 million for CCC financial aid programs.

MAJOR CHANGES

The Governor's Budget proposes several policy changes for the community colleges in the spirit of providing greater fiscal and programmatic flexibility for the system to deal with funding shortfalls. Highlighted below are the proposed changes, which will be discussed at length later in the agenda.

1. ***Repeals the Current Funding Methodology.*** The Governor's Budget proposes to repeal the current statutory funding model for apportionments, which is primarily based on student enrollment, and permit the Board of Governors and statewide Chancellor's Office to adopt a new formula, if they choose, which is subject to final approval by Department of Finance.

2. ***Creates a New Funding Agreement.*** The Governor's Budget proposes to provide annual General Fund augmentations of at least 4 percent for the community colleges beginning in 2013-14, for three fiscal years. These increases would be conditioned on the segments achieving certain performance targets, which have yet to be defined.

3. ***Creates Categorical Funding Flexibility.*** The Governor proposes to consolidate funding for all 21 categorical programs into one flex item, and, with few exceptions, give districts broad discretion in how they spend the funds.

4. ***Links CCC's Budget to the Passage of the Tax Package.*** While the Governor seeks no General Fund savings from the segment in his main budget proposal, the colleges would be subject to a midyear trigger reduction if the Governor's proposed tax initiative is rejected by voters in November 2012. Specifically, the California Communities would be reduced by about $249 million, to $5.5 billion. Of that reduction, $218 million would be achieved by abandoning the proposal to buy down the CCC's deferral payment. Under the Governor's back-up plan, the remaining reduction would come in the form of $30 million in yet-to-be-determined programmatic cuts to either apportionments or categorical programs, or both. The Governor's trigger proposal would also shift the colleges' general obligation bond debt service payment into the colleges' base budget, which has the effect of displacing a like amount of programmatic funds.

Community College Programs Funded by Proposition 98[a]

(In Millions)

	Revised 2010–11	Revised 2011–12	Proposed 2012–13	Change From 2011–12	
				Amount	Percent
Apportionments					
General Fund	$3,419.7	$2,745.9	$3,184.7	$438.7	16.0%
Local property taxes	1,959.3	2,107.3	2,101.1	–6.2	–0.3
Subtotals	($5,379.0)	($4,853.2)	($5,285.8)	($432.5)	(8.9%)
Categorical Programs					
Academic Senate	$0.3	$0.3			
Apprenticeships	7.2	7.2			
Basic skills initiative	20.0	20.0			
CalWORKs student services	26.7	26.7			
Campus child care support	3.4	3.4			
Career Technical Education Pathways[b]	—	—			
Disabled Students Program	69.2	69.2			
Economic and Workforce Development	22.9	22.9			
EOPS	73.6	73.6			
Equal Employment Opportunity	0.8	0.8			
Financial Aid Administration	55.0	56.7	$411.6[c]		
Foster Parent Education Program	5.3	5.3			
Fund for Student Success	3.8	3.8			
Matriculation	49.2	49.2			
Nursing grants	13.4	13.4			
Part–time Faculty Compensation	24.9	24.9			
Part–time Faculty Office Hours	3.5	3.5			
Part–time Faculty Health Insurance	0.5	0.5			
Physical Plant and Instructional Support	—	—			
Telecommunications and Technology Services	15.3	15.3			
Transfer Education and Articulation	0.7	0.7			
Subtotals	($395.6)	($397.3)	($411.6)	($14.3)	(3.6%)
Other Appropriations					
District financial–crisis oversight	$0.6	$0.6	$0.6	—	—
Lease revenue bond payments	68.8	63.7	63.7	—**d**	—
Mandates	—	9.5	22.0	$12.5	130.6%
Subtotals	($69.4)	($73.8)	($86.2)	($12.4)	(16.8%)
Totals	**$5,844.0**	**$5,324.4**	**$5,783.6**	**$459.2**	**8.6%**

[a] Excludes available funding appropriated in prior years.
[b] Annual funding of $48 million is provided for this program by the Quality Education Investment Act (non–Proposition 98 General Fund monies).
[c] The Governor proposes to replace the existing CCC categorical programs with a flex item and augment base support for it by $14.3 million, for total funding of $411.6 million in 2012–13.
[d] Difference of –$41,000.
CTE = Career Technical Education; and EOPS = Extended Opportunity Programs and Services.

Source: LAO

ITEMS TO BE HEARD

ISSUE 1: THE GOVERNOR'S CURRENT YEAR PROPOSAL

The issue for the Subcommittee to consider is the Governor's current year proposal to reduce General Fund and reflect an identical increase in offsetting local property taxes resulting from the elimination of Redevelopment Agencies (RDAs).

PANELISTS

- Department of Finance
- Legislative Analyst's Office
- California Community Colleges

BACKGROUND

Governor's Proposal. The Governor's Budget proposes to generate General Fund savings in the 2011-12 fiscal year, by reducing the current year's apportionments for the community colleges by $146.9 million and identifying a like amount in local property taxes that would eventually offset the community college districts. The Governor's Budget assumes that about $146.9 million in local property taxes would materialize because of the California Supreme Court decision to eliminate redevelopment agencies (RDA). Note: The $146.9 million in General Fund swap is part of the Governor's overall budget strategy to generate savings.

ISSUES TO CONSIDER

The initial CCC concerns with the January budget RDA-related property tax proposal centers on: 1) the estimate of the increased property tax revenues; and, 2) the likelihood that those revenues would materialize in the current year. Since the release of the January budget, staff has gained better understanding of the Administration's estimates on the RDA-related local property tax revenues.

There is a reasonable expectation that there will be an increase in property tax revenues in the current year (and ongoing) from the elimination of RDA. However, at this time, there is still a great level of uncertainty as to when and at what level those RDA dollars will materialize. It is this uncertainty, with no automatic General Fund backfill, that has the community colleges in high alert.

STAFF COMMENTS

As discussed in the following issue, the Chancellor's Office has raised another emerging funding concern that local property tax and student fee revenues are about $140 million below expected, and are concern that if the Legislature approves this General Fund swap without a backfill guarantee, and then the RDA-related local property tax revenue does not materialized in part or full, the CCC could be looking at up to a $296 million shortfall in the current fiscal year.

If the Legislature decided to reject the Governor's proposal, the CCC districts will begin receiving RDA revenues through the AB 8 property tax shares. These revenues will be additional for the districts. By allowing CCCs to keep these RDA-related revenues, the emerging current year issue shortfall would be addressed in some amount. However, not adopting the January Budget proposal creates a $146.9 million "hole" in the overall budget architecture.

ISSUE 2: CURRENT YEAR SHORTFALL ISSUES

The issue for the Subcommittee to consider is the current year revenue shortfalls affecting the Community Colleges.

PANELISTS

- Legislative Analyst's Office
- California Community Colleges
- Department of Finance

BACKGROUND

Apportionment funding, which CCC districts use for general purposes, comes from three main sources: 1) enrollment fee revenues; 2) local property taxes; and, 3) the General Fund. Local Property taxes and General Fund account for the community colleges' funding under Proposition 98.

For apportionments, each enacted budget assumes a specified amount of enrollment fees and local property taxes that will be collected and retained by community colleges that year. The assumption about fee revenue is based on estimates of the number of students who will pay fees and the number of students who, because of their financial need, will receive a Board of Governor's (BOG) fee waiver. The assumption about local property tax revenue is generally based on estimates provided by the Department of Finance at the May Revision.

When systemwide fee revenue or local property tax receipts fall short, the total amount of apportionment funding available to CCC districts that year similarly fall short. Unlike K-12, there is no automatic mechanism to backfill a CCC shortfall. Therefore, the CCC system must contend with lower total funding that year unless the Legislature and the Governor decide to provide a General Fund backfill. Regardless of whether a backfill is provided, the following year's budget assumption of fee or local property tax revenues is adjusted to reflect the underestimate so that the shortfall does not carry forward.

Governor's Proposal. The Governor's 2012-13 budget provides a base increase of $97 million to account for lower-than-expected fee revenues in the current year. This is not a backfill but an accounting adjustment to ensure that the shortfall does not carry forward on an ongoing basis.

CURRENT YEAR SHORTFALLS

The community colleges are currently reporting an unanticipated current year deficiency of $149 million, due to lower than expected enrollment fee revenue ($107 million) and local property tax receipts ($41 million). This represents about 3 percent of CCC's apportionment funding in the enacted budget.

The primary reason for the projected student fee shortfall is an unexpectedly high number of students receiving a fee waiver. The current year fee revenue estimate is based on an assumption of a 52 percent waiver rate, which is now estimated at 63 percent of credit courses. Given the State's fiscal condition, the Administration is not proposing to provide a General Fund backfill.

The Chancellor's Office's Directive to Districts. Without a General Fund backfill, the Chancellor's Office has indicated that any resulting fee deficit will be spread across all districts statewide. To balance their budgets, districts would either have to reduce costs midyear or spend from reserves.

ISSUES TO CONSIDER

Since there is no automatic mechanism to backfill such a shortfall, the system must contend with lower total funding that year unless the Legislature and Governor decide to compensate the system with a General Fund backfill. The following fiscal year is adjusted to reflect the error in fee and local property tax revenues so that the shortfall does not carry forward on an ongoing basis.

Given the interaction of both the Governor's proposal and the current funding shortfall, it is completely understandable and reasonable why the Chancellor's Office is concern over the Governor's proposal to swap General Fund monies for RDA-related property tax revenues. If the Legislature were to adopt the January budget RDA-related local property tax proposal and not provide a backfill of the emerging current year issue, and then should these revenues not materialize in part or full, the community colleges could be looking at up to a $296 million shortfall in the current fiscal year.

In mid-April, the community college districts receive the second round of local property tax revenue receipts. In the past, there have been times when the shortfalls have been addressed and compensated by better than expected local property tax receipts. The Subcommittee will request that the Chancellor's Office provide an update on the status of incoming local property tax revenue projections.

Legislative Actions. Assemblymember Furutani has introduced AB 2591, which would create an automatic backfill when property tax and fee revenues fall short of the amounts estimated in the annual Budget Act, providing the same statutory protections that are in place for K-12 districts.

LAO RECOMMENDATIONS

The LAO agrees with the need to adjust the community colleges' 2012-13 budget with accurate assumptions about fee revenues. The significant increase in the number of fee waivers over the past few years, however, raises questions about the BOG Fee Waiver program. This issue will be discussed further under Issue 3.

STAFF COMMENTS

Given that it is too early to determine what would be an appropriate level of backfill needed as well as being able to identify any available resources to fund this backfill, staff recommends that this item be held open, pending further information regarding the State's General Fund condition as well as an update on local property tax revenue projections.

Note: In prior fiscal years, the State has provided General Fund backfill to mitigate local property tax or student fee revenue shortfalls in the following fiscal year.

ISSUE 3: BOARD OF GOVERNOR'S FEE WAIVER PROGRAM

The issue for the Subcommittee to consider is how the BOG Fee Waiver Program interactions with the CCC's student fee revenue.

PANELISTS

- Legislative Analyst's Office
- California Community Colleges
- Department of Finance

BACKGROUND

BOG Fee Waiver Program. Under current law and regulation, there are three ways for students to be eligible for a fee waiver:

1. **Part A –** Under current law, students are eligible for a Part A fee waiver if they or their parents receive cash assistance from other need-based programs (such as CalWORKs and general assistance.

2. **Part B** – Current law also requires community colleges to waive fees for students who are below income standards as determined by the BOG. Community college regulations deem students eligible for a Part B waiver if they or their families have an adjusted gross income at or below 150 percent of the federal poverty level. (For a family of four, this level is $33,075 in 2011-12).

3. **Part C –** In addition, statute authorizes CCC to establish a methodology for "determining the expected family contribution of students seeking financial aid." The statewide Chancellor's Office has defined this to mean that individuals are eligible for full fee coverage if they have any financial need – that is, their cost of attendance exceeds their federally determined ability to pay (expected family contribution) by $1 or more.

Governor's Budget Proposal. Although student fees will increase from $36 to $46 per unit beginning in summer 2012, as part of the 2011-12 budget trigger, the Governor's Budget assumes total fee revenue will remain virtually unchanged in the budget year. This is primarily because the Administration projects fee waivers will expand by $240 million to a total of $855 million in waiver costs, representing 70 percent of units taken by students.

ISSUES TO CONSIDER

The primary reason for the projected shortfall is an unexpectedly high number of students receiving a fee waiver. The current year fee revenue estimate is based on an assumption of a 52 percent waiver rate, which is now estimated at 63 percent of credit courses. Given the State's fiscal condition, the Administration is not proposing to provide a General Fund backfill.

Why Has Fee Revenue Been A Volatile Funding Source for the Colleges? The community colleges' apportionment funding is determined by the Legislature and the Governor, assuming a specified amount of local property taxes and enrollment fees that will be collected and retained by community colleges each fiscal year. The assumption about enrollment-fee revenue is based on estimates of the number of students who will pay fees and the number of students who will receive a waiver. Based on estimates of local property taxes and fees, the enacted budget provides the necessary Proposition 98 General Fund support to meet the system's apportionment amount. The General Fund thus pays for the BOG waiver program by backfilling districts for their foregone fee revenue.

California Community Colleges BOG Fee Waiver Costs

Fiscal Year	Student Fees/Unit (full-time attendance)	Fees Paid	Fees Waived
2003-04	$18/unit ($540)	$248,510,000	$168,138,0000
2004-05	$26/unit ($780)	341,519,000	266,001,0000
2005-06	$26/unit ($780)	351,125,0000	273,789,000
2006-07	$26/unit ($780)	325,047,000	244,559,000
2007-08	$20/unit ($600)	297,258,000	225,188,000
2008-09	$20/unit ($600)	309,000,000	253,996,000
2009-10	$26/unit ($780)	360,790,000	369,260,000
2010-11*	$26/unit ($780)	323,352,000	410,633,000
2011-12*	$36/unit ($1,080)	361,075,000	614,680,000
2012-13*	$46/unit ($1,380)	366,484,000	855,241,000

* Information at this time is based on estimates.

The chart above shows the annual amount of fees collected and waived over the past decade. Between 2003-04 and 2008-09, less than half of potential fees were waived each year. In fact, though fee levels fluctuated between $18 and $26 per unit during that period, the percentage of fee charges that were waived remained relatively steady (between 40 percent to 45 percent). By 2008-09, the cost of the program was $253 million. In 2009-10, however, more fee revenue was waived than collected. That trend increased in 2010-11, and is on track to grow further in the current year. Specifically, an estimated $361 million in fees will be collected in 2011-12, while $614 million (representing 63 percent of all units taken by students) will be waived.

There appear to be two main reasons for this recent increase: (1) declining personal income during the recent recession has made more students financially eligible for fee waivers; and, (2) rising fee levels have spurred waiver applications from financially needy students who otherwise would not have applied.

ACTIONS TAKEN TO ADDRESS ISSUES

The Chancellor's Office's Directive on the BOG Fee Waiver Program. In fall 2012, a community college administrative change will take effect for Part C waivers. The minimum standard will be tied to the amount of fees charged to a full-time student taking 24 units in an academic year, which translates to a minimum need threshold of $1,104 (instead of $1). This change is consistent with how the Cal Grant program is structured, which also requires that a student's demonstrated need be at least as much as the maximum amount of the award. The CCC Chancellor's Office estimates that this new policy will affect about 20,000 students, or 1.7 percent of current recipients, resulting in savings in the BOG Fee Waiver program of approximately $12 million in 2012-13.

Other than the financial eligibility requirements discussed above, and unlike other federal and state financial aid programs, the BOG Fee Waiver program imposes few other criteria on students to receive or retain a waiver. For instance, students may receive a waiver regardless of their reason for attending a CCC. Students may also earn failing or otherwise substandard marks for two or more academic years before they are dismissed from the CCC and lose their fee waiver. There is also no limit to the number of years students may receive a fee waiver, nor is there any limit on the number of credit units a student can accumulate.

Legislative Efforts. SB 1143 (Liu), Chapter 409, Statutes of 2010, requires the CCC Board of Governors to establish a task force to examine best practices for promoting student completion and adopt a plan for improving student success rates within the CCC. The Student Success Task Force completed its work early this year; the BOG subsequently adopted the Task Force's recommendations. Of the recommendations, one concerns the BOG Fee Waiver program – that satisfactory academic program toward a declared goal be required of student renewing their BOG Fee Waiver, and that academic and progress standards be established, including a maximum unit cap, as defined by the BOG. As statutory authority is needed to add these conditions to the BOG Fee Waiver program, the Chancellor's Office is pursuing SB 1456 (Lowenthal).

LAO RECOMMENDATIONS

The LAO recommends that the Legislature enact the statutory changes necessary to add satisfactory academic progress requirements to the BOG Fee Waiver program. The LAO also recommends that the Chancellor's Office count dependent students' income to assess need (current policy only requires campuses to consider only parents' income). Finally, the LAO recommends that the Legislature require students to apply for a waiver using the FAFSA to ensure that they are considered for the full spectrum of federal and state aid.

STAFF COMMENTS

The BOG fee waiver program continues to be a critical tool for access to the CCC system. The program was designed to make sure that students with financial need did not face a barrier to enrollment. However, a program structure adopted in 1984 when fees were first instituted at $5 per unit can perhaps not be justified under modern conditions without some modifications. The recent administrative changes the Chancellor’s Office made are a step in the right direction, as they begin to make the program structure similar to that of other state and federal financial aid programs. The changes proposed by the Student Success Task Force, and contained in SB 1456 (Lowenthal), are intended in the same construct and merit further consideration.

This issue will remain as an informational item, given its relevance to understanding the interaction with student fee revenue expectations.

ISSUE 4: NEIGHBORING STATE STUDENT ENROLLMENT FEE

The issue for the Subcommittee to consider is the Governor's proposal to increase the student fees for qualifying neighboring state students attending California community colleges.

PANELISTS

- Department of Finance
- Legislative Analyst's Office
- California Community Colleges

BACKGROUND

Current Practice. Under current law, California provides neighboring state residents the ability to attend a community college at a higher student fee rate of $42 per unit. However, the student fees for California students are scheduled to increase from $36 per unit to $46 per unit effective the summer term of 2012. As a result, eligible neighboring state students will be paying lower student fees than California residents.

April 1st DOF Letter. The Administration proposes trailer bill legislation that would increase student fees for qualifying neighboring state students that attend CCC based on reciprocal state attendance agreements. The proposed statutory amendment would increase neighboring state student fees to three times, or $138 per unit, the California resident student fee of $46 per unit.

Establishing neighboring state student fees at three times the current resident student fee would reestablish neighboring state student fees as a multiple of resident student fees and would allow neighboring student fees to adjust in concert with any adjustments to resident student fees. Furthermore, the $138 per unit fee would establish neighboring state student fees approximately midway between Oregon, Nevada, and Arizona resident student fees that range in the mid $70 per unit and California nonresident student fees ranging around $200 per unit.

The Governor's Budget estimates that the current neighboring state student fee of $42 per unit would generate approximately $500,000 in student fee revenues in 2012-13; however, a determination will be made at the May Revision to the extent that the proposed fee increase would generate additional student fee revenue.

STAFF COMMENTS

Staff requested information from the Chancellor's Office regarding how much Oregon and Arizona charges California students attending their community college institutions, as well as the impact of establishing a policy that ties the fee increase by 3 times the current resident student fee.

ISSUE 5: ELIMINATION OF THE CCC'S APPORTIONMENT FUNDING METHODOLOGY

The issue for the Subcommittee to consider is the Governor's proposal to eliminate the community colleges' apportionment funding formula for the sake of providing "greater flexibility".

PANELISTS

- Department of Finance
- Legislative Analyst's Office
- California Community Colleges

BACKGROUND

Current Law. SB 361 (Scott), Chapter 631, Statute of 2006, replaced an overly complex and outdated program-based funding system with a comprehensive form of equalization that recognized the fixed costs of operating for all colleges and centers, and established equity to the smaller college districts. Prior to the implementation of SB 361, community college districts did not receive equal funding rates on a per FTE basis, but based on factors such as headcount enrollment and total square footage of district facilities.

Since 2006-07 fiscal year, the State has been using this funding mechanism that in addition to providing the basic allocation, created a marginal amount of revenue allocated per FTE: $4,565 for credit instruction/FTE, $3,232 for enhanced non-credit instruction/FTE, and $2,745 for regular non-credit instruction/FTE. Note: The State has not provided a cost of living adjustment since 2007-08. Districts then receive an amount of apportionment funding depending on the number of students it enrolls, but only up to their enrollment target, not beyond. Although not specifically included in the annual budget act, an overall enrollment target for the entire CCC system is calculated by the Department of Finance.

When SB 361 was developed and adopted, it was the result of about four years of collaborate work between the community college system, stakeholders, and policy makers to address a critical issue that was affecting the colleges' financing structure. This was a policy that was adopted through the policy process.

Governor's Proposal. The Governor's Budget proposes to provide community college districts with new flexibility by repealing the current statutory funding structure for apportionments, which is based primarily on student enrollment. In its place, the budget specifies that CCC General Fund monies in 2012-13 will be allocated to districts based on the same proportionate share that districts received in 2011-12. However, the Chancellor's Office may deviate from this new methodology if it develops an alternative that is approved by the Board of Governors and the Department of Finance.

ISSUES TO CONSIDER

Given that it took roughly four years to develop and adopt the current FTES model, it is not clear how this so-called new methodology is expected to be feasible and ready for implementation by the start of the 2012-13 fiscal year. Effectively this means that 2012-13 funding will go out on a proportionate basis to what districts received in 2011-12. This approach steps backwards to the old model of un-equalized funding; i.e., the funding will be allocated in 2012-13 without regard to, for instance, district-level enrollment changes.

The Administration has stated that it would theoretically be an option for the Chancellor's Office to conclude that retention of the current FTES model is the best approach. However, given that the Administration effectively rejected that model in the January budget, it is not clear that this is actually a feasible option.

This is not to say that the current FTES model is without flaws – it creates an incentive to enroll in, as opposed to complete classes, and for students to take any class as opposed to the classes needed to progress to a degree or a certificate. The reality is that there are positives and negatives with any allocation methodology, and it is naïve to think that such a significant change can happen quickly and outside the policy arena. Further, the budget provides the Administration with veto power on any alternative methodology and does not provide a role for the Legislature should the Chancellor's Office develop such a methodology.

Finally, the Administration indicates this proposal is similar to its treatment and approach with UC's and CSU's budget, in that the intent is to provide CCC districts with maximum flexibility. While the CCC's is a higher education system, the CCC has a K-12 governance structure with 72 local districts, each with its own elected board members. In addition, there are separate statutory requirements dictating expenditure levels on faculty salaries and the percentage of full time versus part-time faculty that restrict budgetary flexibility. It is not readily clear how the UC and CSU model can apply to the CCC reality without major structural and statutory changes that are not part of the January budget proposal.

LAO RECOMMENDATION

The LAO recommends that the Legislature reject the proposed trailer bill language to decouple CCC funding from enrollment.

ISSUE 6: FUNDING FLEXIBILITY OF THE CATEGORICAL PROGRAMS

The issue for the Subcommittee to consider is the Governor's proposal to consolidate the funding for the California Community Colleges' categorical programs.

PANELISTS

- Department of Finance
- Legislative Analyst's Office
- California Community Colleges

BACKGROUND

Current Funding Practice. The State provides two primary types of funding to the CCC system: 1) apportionments, which are intended to fund CCC basic operating costs (such as employee compensation, utilities, and supplies); and, 2) categorical programs, which collectively support a wide range of supplemental activities that the state views as critical statewide priorities, including for child care, support services for underprepared students, and financial aid advising, among others. In 2011-12, the CCC received about $4.9 billion in apportionment funding and $397.3 million in categorical funding.

The 2009 Budget Act reduced ongoing Proposition 98 General Fund support for categorical programs by $263 million (about 37 percent). To help districts better accommodate the reduction, the 2009 Budget Act combined over half of CCC categorical programs into a "flex" item. Through 2014-15, districts are permitted to use funds from categorical programs in the flex item for any categorical purpose. By contrast, funding for categorical programs that are excluded from the flex item must continue to be spent on specific associated statutory and regulatory requirements.

Governor's Proposal. The Governor's Budget proposes to provide CCC districts with new funding flexibility by consolidating the categorical programs, and allowing the districts to use the funds for any general operating cost. The "flex" item would total $378.4 million, which is the sum of 2011-12 funding level for the included programs plus a proposed $14 million workload adjustment in 2012-13.

The categorical programs excluded from the new "flex" item are: (1) Foster Care Education Programs ($5.3 million); and, (2) Telecommunications and Technology Services ($15.3 million). The Disabled Students Programs and Services categorical is partially excluded; i.e., $12.6 million of the $69 million in total funding is excluded from the "flex" item.

April 1st DOF Letter. The Administration is requesting that Provision 5 of Item 6870-101-0001 be deleted to correct a drafting error that imposed unnecessary restrictions on the proposed categorical program flexibility. The Governor's Budget continues to consolidate the community colleges' categorical program funding of $378.4 million in Proposition 98 General Fund into a single student support program that would largely allow the funding to be used for any purpose. Provision 5 was unnecessarily imposing restrictions that conflicted with the intended proposal.

California Community College Categorical Programs

(Funds in Millions)

Programs Currently in "Flex" Item ($113 million)	2008 BA	2011 BA	Programs Out of "Flex" Item ($298 million)	2008 BA	2011 BA
Academic Senate Provides procedures for the faculty of the colleges to participate in the formation of polices related to curriculum, student success, and qualifications for faculty.	**$0.5**	**$0.3**	**Basic Skills Initiative** Provides funds to address the retention and success rates of ESL/Basic Skills students and provides additional counseling and tutoring services.	**$33.1**	**$20**
Apprenticeship Provides anyone over the age of 16 the opportunity to gain specific job skills in various industries through direct training by employees of those industries.	**$14.6**	**$7.2**	**CalWORKs Students Services** Provides assistance to welfare recipient students and those in transition off of welfare to achieve long-term self-sufficiency through coordinated student services offered at community colleges.	**$43.6**	**$26.7**
Campus Child Care Support Since 1978, when Proposition 13 passed, 25 districts receive funds for operation of their campus child care centers through "tax-bailout funds" from the state because these districts lost their ability to levy permissive taxes to fund their programs.	**$6.8**	**$3.4**	**Career Technical Education/SB 70** Involves a partnership between the colleges and K-12 to improve education pathways and CTE awareness for students in high skilled jobs with high wages.	**$20**	**$48 (QEIA funds not P98)**
Economic & Workforce Development Advances the state's economic growth through education, training, and services that focus on workforce improvement and development consistent with local, regional economies.	**$46.8**	**$22.9**	**Extended Opportunity Programs & Services** Promotes the enrollment, retention, and transfer of students with language, social, economic, and educational disadvantages. EOPS offers academic and support counseling.	**$122.3**	**$73.6**
Equal Employment Opportunity Advances the opportunities for equal employment in hiring and promotions within the colleges.	**$1.7**	**$0.8**	**Financial Aid Administration** Provides funds to districts to coordinate and administer federal, state, and institutional financial aid programs for students.	**$51.3**	**$55**
Matriculation Provides assistance to students navigating through the admissions process, orientation, assessment and testing, and counseling services.	**$101.8**	**$49.2**	**Foster Care Education Programs**[a] Provides education and support opportunities to caregivers of children and youth in out-of-home care.	**$5.3**	**$5.3**
Part-Time Faculty Compensation Funds are distributed to districts on the basis of actual FTES served as an incentive to achieve greater equity in the compensation of part-time faculty.	**$50.8**	**$24.9**	**Fund for Student Success** Targeted investments designed to reach out to economically and socially disadvantaged students. Funds 3 programs: Puente Project, MESA Program, and Middle College High School.	**$6.2**	**$3.8**
Part-Time Faculty Health Insurance Provides subsidies for districts providing health benefits (not dental or vision) to eligible part-time faculty working at 2 or more college districts.	**$1**	**$0.5**	**Nursing Grants** Grans allow districts to purchase equipment and develop their nursing programs' capacity and curriculum.	**$22.1**	**$13.4**
Part-Time Faculty Office Hours Provides incentives to districts to fund office hours for PT faculty so that they can provide academic counseling and assistance to students outside the classroom.	**$7.2**	**$3.5**	**Disabled Students Program**[b] Offers services to provide equal access to students with verified disabilities, as required by both state and federal laws.	**$115**	**$69.2**
Physical Plant & Instructional Support Provides funds for facility repairs, replacement and upgrade of worn out or obsolete instructional equipment and materials.	**$27.3**	**$0**	**Telecommunications & Technology Services**[a] Funds the statewide telecommunications network (infrastructure, application development, and training of staff) for community colleges.	**$26.2**	**$15.3**
Transfer Education & Articulation Funding available to support grants for transfer and articulation projects, and common course numbering projects.	**$1.4**	**$0.7**			

This chart compares each program's funding to the 2008 Budget Act appropriation, before major funding reductions were made.
[a]Governor proposes to restrict all funding for these categorical programs.
[b]Governor proposes to restrict partially protect funding for this categorical program.

ISSUES TO CONSIDER

Categorical programs were designed to ensure that districts address specific education priorities the state views as critical. However, due to massive reductions that began in 2009-10 budget year, many districts have had to bridge the funding gap by redirecting funds from reserves and other services, as well as scaling back the level of services that can be offered.

- ***2010-11 Categorical Funding Report.*** In the 2010-11 Chancellor's Office report, it indicated that 32 districts exercised the flexibility and a total of $1.1 million was shifted. The Part-Time Faculty Compensation program represented about 87 percent of the funds shifted; Apprenticeship was the second most shifted funds, with a total of $70,000 shifted (or 7 percent of total funds). The two categorical programs receiving the bulk of the transferred dollars were Matriculation and Disabled Students Programs & Services.

- ***2011-12 Categorical Funding Report.*** On April 17, 2012, the Chancellor's Office submitted its report on how districts redirected from each of the select categorical programs that fall under the "flex" item. According to the report, $1,476,219 was moved out from the "flex" categoricals. The bulk of the funds came from the Part-time Faculty Compensation ($884,452) and Matriculation ($444,127) programs. The major receipts of redirected funds were Matriculation ($884,452) and Disabled Students Programs and Services ($539,418).

The Governor's proposal goes quite a bit further than the current "flex" proposal, in that it would lift restrictions to 90 percent of all the categorical funds and authorize their expenditures for *any* purpose. This approach would completely negate current assurances that these dollars will be spent on identified state priorities. Districts could continue to spend the flexed funds on categorical programs, but they would not be required to do so.

Categorical programs do have drawbacks. For instance, the program parameters, and requirements are quite prescriptive and do not necessarily allow CCC districts to meet their student and local resource needs. Categoricals are also costly to administer. However, given that the state is only in the third fiscal year of providing categorical flexibility, the Subcommittee may wish to consider the degree to which the current flex item is working as intended before proceeding full throttle to cut all strings to the funding and on a permanent basis as proposed by the Administration.

LAO RECOMMENDATION

CCC districts would benefit from more categorical flexibility. However, the Governor's approach could result in local decisions that undermine the Legislature's original intent for these funds. The LAO has identified two alternatives for the Legislature to consider, both of which would enhance local flexibility while still ensuring that categorical funds are spent on support services for students and faculty.

The first option is a more limited version of the Governor's flex item, by including statutory language that limits spending to existing categorical program purposes.

The second option is to consolidate 15 categorical programs in two block grants, one centered on student success, and one on faculty support. This option would exclude six programs, including the three the Governor proposes to protect, because they serve various unrelated and specialized purposes.

LEGISLATIVE EFFORTS

SB 1143 (Liu), Chapter 409, Statutes of 2010, established a 12-month strategic planning process entrusted to the Board of Governors and created the Student Success Task Force, that commenced on January 2011. The 20-member task force (which included faculty, student, administrators, and various other stakeholders) developed a report that highlighted best practices for promoting student success and developed statewide strategies to ensure that educational opportunities for historically underrepresented students would not be maintained at status quo, but bolstered.

While the report that the Board of Governors endorsed, in January 2012, no longer pushed for a change to the current budget structure of the categorical programs, it still highlights the need to break down organizational silos that inefficiently create unnecessary barriers to students in need of critical services and detract from the need for local colleges to have control and flexibility over their student outcomes and resources. The report recommends that to state leaders review the administration and reporting requirements of various categorical programs, and move in the direction of streamlining where needed.

After the CCC Board of Governors approved the final Student Success Task Force report, the Chancellor's Office and the Legislature promptly engaged in determining the appropriate process, via the regulatory process or legislative policy process, to implement the recommendations that are outlined in the report.

There are several other efforts that stemmed from the task force's report, such as:

- SB 1550 (Wright) creates a community college extension program. *Pending in Senate Education Committee.*

- SB 1062 (Liu) is part of the Student Success Taskforce package and would strengthen the Chancellor's Office. *Pending in Senate Education Committee.*

- SB 1456 (Lowenthal) establishes new requirements to be met by students who receive a Board of Governor's fee waiver, as well as new requirements to be met by college districts in order to receive matriculation funds. *Pending in Senate Education Committee.*

- AB 1741 requires the CCC Board of Governors to develop a plan for supporting the goals and efforts in SB 1456 (Lowenthal), and declare that the requirements and expectations be imposed only if there are resources appropriated for this purpose in the 2012-13 fiscal year and successive fiscal years. *Pending in Assembly Higher Education*

ISSUE 7: NEW LONG-TERM FUNDING AGREEMENT PROPOSAL

The issue for the Subcommittee to consider is the Governor's proposal to provide a long-term funding structure based on performance metrics for the California Community Colleges. This proposal is contingent upon the passage of the Governor's tax initiative in November 2012.

PANELISTS

- Department of Finance
- Legislative Analyst's Office
- California Community Colleges

BACKGROUND

Funding Agreements or Higher Education Compacts with Prior Administrations. Funding agreements or compacts as they have been previously called are not a new idea or approach. Similar agreements between prior administrations and UC and CSU generally took the form of uncodified agreements between the Governor and the universities. The Legislature was not a party to those earlier agreements. Those prior agreements also largely proved themselves to be unworkable. While the desire for budgetary stability and predictability is understandable, the state budgets on a one-year cycle. In this vein, one Legislature cannot tie the hands of another; therefore, and as in the past, any budget decision made one year about a future year is at best a statement of legislative intent.

Governor's Proposal. The Governor's central component for his long-term higher education strategy is a new funding agreement in years 2013-14, 2014-15, and 2015-16, committing to a minimum of four percent annual base budget increase for the CCC, contingent upon the passage of the Governor's tax initiative in November 2012 and in exchange for the CCC meeting certain Administration-identified performance targets.

ISSUES TO CONSIDER

The community colleges are subject to Proposition 98. As a result, General Fund support for the CCC are intertwined with local property tax revenues received by the districts, since Proposition 98 counts the combination of these two fund sources together. This means that an increase in local property taxes would result in a reduction in the amount of General Fund needed for a given level of Proposition 98 support. For this reason, simply increasing CCC's General Fund support by four percent does not ensure any particular level of Proposition 98 resources for CCC, since property tax revenues do not necessarily move in tandem with General Fund revenues.

The Administration has clarified that it intends for CCC's four percent base increases to be applied to its entire Proposition 98 base (including both General Fund and local property taxes). However, this raises a new set of concerns. For example, if property taxes were to increase by less than four percent from one year to the next, fulfilling the Governor's promise of a four percent increase in CCC's Proposition 98 funding could cost well more than a four percent increase in CCC's General Fund appropriation. This is because the General Fund would have to make up for the inability of property taxes to cover their share of the overall four percent augmentation. Another difficulty arises because CCC and K-12 schools together share total Proposition 98 funding. If the overall Proposition 98 minimum guarantee were not to increase by at least four percent in a given year, meeting the Governor's proposed increase for CCC would require either shifting some of K-12s share to CCC, or appropriating above the minimum guarantee (which would increase overall state costs).

LEGISLATIVE EFFORTS

The Legislature has shown a strong interest in accountability over the past decade. While prior attempts to adopt a framework have failed, the Legislature is currently considering SB 721 (Lowenthal). This bill would establish higher education goals and create a working group of representatives of the Legislature, Administration, segments, and others to develop specific accountability metrics. Other current and recent legislative efforts have focused on similar objectives.

Assembly Speaker Pérez has also introduced AB 2190 to establish a new higher education authority to oversee and monitor postsecondary education goals for the state, including reporting on the process of the postsecondary segments effectiveness in meeting the state's needs.

LAO RECOMMENDATIONS

The Governor's proposal provides a good opportunity to move forward with the Legislature's accountability efforts. However, the LAO recommends that accountability metrics be used to help the Legislature in identifying policy and budget priorities, rather than as a mechanism for triggering the preset four percent augmentations for the segments. Further, because accountability remains a difficult and elusive goal, it would be unrealistic to expect to complete such an effort as part of this year's budget process. Therefore, the LAO recommends that these efforts be directed through policy committees and the regular legislative process.

Finally, promising out-year base augmentations to the segments would complicate budgeting in other areas and reduce the Legislature's discretion in allocating resources. For these reasons, the LAO recommends that the Legislature reject the Governor's approach of promising base increases to the CCC. Instead, the LAO recommends that the Legislature continue its current practice of making higher education funding decisions as part of each year's budget deliberations.

STAFF COMMENTS

As previously discussed at the Subcommittee's April 11th hearing, "funding agreements" or "compacts" as they have been previously called, are not a new idea or approach with UC and CSU. However, in the case of CCC, a funding agreement is a new idea, as agreements between prior administrations and the segments did not include the community colleges.

At this junction, more questions than answers are available about this funding agreement. At the April 11th subcommittee hearing, the Administration testified that it was still working out the details of their proposal, exclusively with the University of California. It became clear that further information would not be available for legislative input and review at this time, with no definitive answer as to when to expect to participate in the development of metrics of accountability, which the Legislature has sought for years. At this point, it is questionable whether this proposal should be linked to the 2012-13 Budget Act, and instead allows the discussion to continue separate from the budget process, given the magnitude of work required to develop the appropriate metrics of performance for each segment of higher education and realistic expectations and consequences.

ISSUE 8: BUDGETARY TRIGGER REDUCTIONS

The issue for the Subcommittee to consider is the Governor's proposal to reduce General Fund support for the Community Colleges, if the November tax initiative is not approved by voters. The triggered reduction would take effect January 1, 2013.

PANELISTS

- Department of Finance
- Legislative Analyst's Office
- California Community Colleges

BACKGROUND

Prior Trigger Reductions. The 2011 Budget Act included $102 million in reductions for the CCC that was triggered if estimates of state revenues as of December 2011 were below the forecasted amount. This trigger was pulled effective January 1, 2012.

Governor's Proposal. The Governor's Budget relies on revenue from a tax package to be placed before voters in November 2012. In the event voters reject that plan, the January budget proposes a number of automatic reductions ("trigger cuts") to General Fund appropriations, primarily in the areas of Proposition 98 and the universities, which would take effect January 1, 2013.

The CCC would experience a programmatic reduction of $292 million, or 4.7 percent. The Governor's proposal makes the following specific adjustments:

- Reduces the CCC apportionment funding by $262 million by redirecting Proposition 98 General Fund to pay for the CCC's general obligation debt service costs, which are currently funded outside of Proposition 98.

- Reduces the CCC base funding by $30 million, and it is currently unclear how this cut would be allocated among CCC apportionment, the categorical programs, and other costs.

- Eliminates the $218 million augmentation that would have been provided to pay down the CCC deferrals. This is not intended to have a programmatic effect.

ISSUES TO CONSIDER

In the event that voters reject the Governor's tax initiative, the "trigger" reductions for the CCC would total $292 million in programmatic funding. All of these reductions would come at the end of the fall semester, making the reductions so disruptive that the CCC likely would feel compelled to adopt budgets assuming the reductions will happen. However, taking this approach in 2012-13 will be even more challenging for the CCC. After years of reduced state funding, it is appropriate to question what budgetary levers actually remain for districts in planning for further reductions.

LAO RECOMMENDATIONS

Given that a significant portion of the Governor's revenue assumption is subject to voter approval in November, it makes sense to include a contingency plan in the event voters reject the tax proposal. However, the Legislature has choices as to how the contingency plans are structured. For example, the Governor places almost all the trigger cuts in K-14 education and higher education. The Legislature could instead allocate the cuts differently among the state's education and non-education programs. For example, the cuts could be targeted to programs most able to respond to mid-year reductions, or they could be spread across more programs to reduce their impact on any one program. In the alternative, the Legislature could instead take the opposite approach: build a budget that does not rely on the Governor's tax package, with contingency augmentations if the tax package is approved.

Given the potential for mid-year trigger cuts and the high likelihood that districts are building budgets assuming the lower funding level, the Legislature should give districts some tools to help mitigate the effect on education programs. The LAO recommends that these tools be part of the initial budget package and effective beginning July 1. For the CCC, the Legislature should consider: (1) removing additional categorical and mandate requirements (beyond current-law requirements); (2) suspending the requirements on the number of full-time faculty that districts must employ; (3) modifying the 50 percent law (which requires districts to spend at least 50 percent of their general operating budget on compensation for in-classroom faculty) to include expenditures on counselors and librarians or suspending the law for one year; and, (4) allowing for a special post-election layoff window.