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Sent: Tuesday, January 10, 2017 11:07 AM

To: SO2CBO@LISTSERV.CCCNEXT.NET

Subject: 2017-18 Governor's Budget for CCCs

Colleagues,

The 2017-18 Governor's Budget was released today. The budget summary indicates state revenues, which surged during several years of recovery, are now beginning to lag expectations. Despite this constraint, the budget provides roughly \$400 million in new Proposition 98 General Fund spending for CCCs. The state general fund is estimated to increase by approximately \$3.7 billion, or approximately 3% in 2017-18. Proposition 98 is estimated to increase by approximately \$2.1 billion, or approximately 3% in 2017-18.

Below is a summary of the augmentations for the CCC budget. There will be a note if the augmentation is one-time in nature.

Educational Services

- \$150 million for implementation of guided pathways. While the yet to be release trailer bill will outline much of the programmatic requirements, the intent of the funds will be to support community colleges in leveraging the work our system has done over the past few years as they develop cohesive, integrated pathways to help more students achieve their educational objectives. (one-time)
- \$20 million for an Innovation Awards program. As opposed to an outside committee administering the program, the Chancellor will have broad authority to select the focus of the grants and the awardees. (one-time)
- \$5.4 million for a 1.48% COLA for the Apprenticeship, EOPS, DSPS, CalWORKs and the Child Care Tax Bailout programs.
- \$3.1 million for enrollment growth in the Full-Time Student Success Grant program.

Apportionments

- \$94.1 million for a 1.48% COLA to apportionments.
- \$79.3 million for a 1.34% growth in access. These funds will be allocated through the recently revised growth formula.
- \$23.6 million for a base increase to cover increasing operating costs, especially due to rising employer pension cost.

Technology

- \$10 million for the Online Education Initiative to purchase a learning management system that will be provided free to colleges.
- \$6 million for the procurement of an integrated library system that allows every student to access a cloud-based, up-to-date library catalog. (one-time)

Facilities and Equipment

- \$43.7 million for the Physical Plant and Instructional Equipment program. (one-time)
- \$52.3 million for energy efficiency projects through the Proposition 39 program. (one-time)

Traditionally the CCCs have received 10.93% of the Proposition 98 Guarantee. In 2014-15 the share is 10.92%, in 2015-16 the share is 10.94%, and in 2017-18 the share is 10.87%, which is approximately \$45 million less than what traditionally would be expected.

While the Board of Governors approved 29 projects for funding for 2017-18, the Governor's Budget includes five Proposition 51 bond funded projects. The Governor proposed to focus on projects that addressed critical health and safety needs as well as improving existing instructional infrastructure.

- Pasadena's Armen Sarafain Building Seismic Replacement
- San Francisco's Alemany Center Seismic Upgrade
- San Francisco's Ocean Campus Utility Replacement
- Fullerton's Business and Humanities Buildings Modernization
- Compton's Instructional Building 2 Replacement

In addition to the funding for our system, the Governor's Budget also proposes two additional executive team members to the Chancellor's Office. We appreciate the proposed expansion of capacity in our office and will continue to consider the best use of these new resources.

The Governor's Budget also proposes phasing-out the Middle Class Scholarship program for new students. Beginning in 2017-18, awards will be renewed only for students who received awards in 2016-17.

This is a solid start to the 2017-18 budget process, and we appreciate the consideration and efforts the Governor and his team put forth in developing this budget. Here are a few concepts and ideas we should keep in mind as we move forward.

- The years of seeing significant increases in Proposition 98 are likely behind us. Given that the economy is nearing its peak, the sales and use tax portion of Proposition 30 is ending, and the backlog of Proposition 98 maintenance factor created during the recession has been paid off, we should expect modest growth in Proposition 98 until the next recession.
- Between 2013-14 and 2020-21, pension costs for the system will increase by over \$400 million as the state reduces the gap between the assets and liabilities in PERS and STRS. In addition to the estimated increases in employer contributions, the PERS governing board also recently took action to reduce their investment volatility by lowering their annual assumed rate of return from 7.5% to 7% over a three-year period. It is at least a possibility, if not likely, PERS employer rates will increase in future years based on the lowering of the return rate.
- Our system has already received \$368.7 million to increase our apportionments base. While this funding is unrestricted, there is a clear expectation from policy makers that these funds have been provided to ensure colleges are covered for new expenses related to pension costs increases. Given the outlook on Proposition 98, the known employer contribution increases for PERS and STRS, and the possibility of additional increases to employer rates in the future, it is imperative colleges anticipate and plan for these costs going forward.
- While funding for the Student Success and Support, Student Equity, Adult Education, and Strong Workforce programs did not receive an augmentation, they continue to receive the same level of funding as 2016-17. The success of these programs, and the likelihood of our system continuing to receive funding in future years, will be determined by our ability to maximize the return on the state's investment in these areas. Given this, it is critical colleges use these resources to support integrated and effective student success strategies. In addition, achieving the desired results will take sustained efforts, including appropriate levels of ongoing investments at the college level, while preserving a reasonable level of operating flexibility for when the next recession occurs.

The next steps in the budget process will be input from system stakeholders, a review by the Legislative Analyst's Office, and an initial round of legislative hearings prior to the release of the May Revision. I'll continue to provide updates along the way, but feel free to reach out to me with any questions, comments, or concerns related to budget.

Regards,
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