

2013-14 MAY REVISION/CONFERENCE COMMITTEE
(Discussion)

Overview

Governor Brown released his 2013-14 May Revision spending plan on Tuesday, May 14th and surprised budget watchers by scoring lower revenue projections in the current year and budget year. The Governor acknowledged the receipt of a \$4.5 billion of unexpected tax revenues; however the Administration asserted the majority of these revenues are one time and thus will not provide the state with ongoing revenues to address recent cuts – particularly on the non-Proposition 98 side of the budget.

The notable changes included in the May Revision impact the following areas:

- K-14 Proposition 98:
 - Proposition 98 increase of \$2.9 billion attributed to higher revenues
 - Refinements to both the K-12 local control funding formula and the adult education proposal
 - Faster deferral buy-down schedule than identified in January
 - \$1B of one-time revenue to address K-12 professional development surrounding common core
- Medi-Cal expansion in response to the federal affordable care act
- Changes to the Enterprise Zone Program
- Select backfill of federal sequestration reductions
- No restoration of funding for health and human services program.

Proposition 98 — 2012-13 Current Year (CY) and 2013-14 Budget Year (BY)

In the May Revision, the Administration proposes a \$55.5 B Proposition 98 guarantee. In January, the Administration proposed \$56.2 B for the BY; however NOW based upon lower revenue projections Proposition 98 is proposed to receive \$900 M less in ongoing revenue. The Administration has also revised the 2012-13 Proposition 98 guarantee to equal \$56.5 B. This represents a \$3 billion dollar increase over the \$53.5 B proposed in January and the Administration is proposing the increase be directed at one-time expenditures.

Proposition 98 Components

Total Guarantee

2012-13: \$56.5 B (In January \$53.5B)

2013-14: \$53.5 B (In January \$56.2B)

K-12/Community College Split

2012-13 CCC 10.55% K-12 89.45% (In January CCC 10.83% K-12 89.17%; CCC in May Revise are proposed to receive roughly \$21 million less using the statutory split of 10.93%)

2013-14 CCC 10.88% K-12 89.12% (In January CCC 11.38% -higher split driven primarily by scoring \$300 of adult ed proposal to CCCs and K-12 88.62%; CCCs in May Revise are proposed to receive roughly \$3 million less using the statutory split of 10.93%)

2012-13 Jan 2013 CY to May 2013 REVISED CY

CCC: \$153 million MORE
K-12: \$2.7 billion MORE

2013-14 Jan 2013 BY to May 2013 REVISED BY

CCC: (-\$394) million LESS (In January +\$597 million)
K-12: (-\$548) million LESS (In January +\$2,061 million)

The Administration's Proposition 98 proposal for the budget year is premised on a Test 3 calculation which is based on the change in per-capita General Fund. Test 3 is used in low revenue years when General Fund revenues decline or grow slowly. A "low revenue year" is defined as one in which General Fund revenue growth per-capita lags behind per-capita personal income growth.

The cost-of-living adjustment (COLA) factor is calculated at 1.57% and the Administration is proposing an \$87.5 million augmentation to the unrestricted Apportionment for the community colleges to fund the COLA.

It should be noted that both K-12 and community colleges received no COLA adjustment for the five years of 2008-09 to 2012-13; however, K-12 will eventually have its foregone COLA scored and restored through the 2012-13 fiscal year under the governor's proposal. The K-12 deficit factor adjustment essentially backfills the lost purchasing power once the state's budget situation improves. For K-12, the Governor is proposing that under the new "Local Flexibility Funding," no deficit factor would be created for K-12 beginning in the 2013-14 fiscal year. While there is neither a statutory timetable for the repayment nor a statutory requirement to create a deficit factor, K-12 has consistently elevated this as a top priority and the factor has historically been funded. It should be emphasized that for the community colleges, the lack of COLA for the period 2007-08 through 2012-13 created a cumulative loss of purchasing power totaling 18.3% and translates into roughly \$994 million.

California Community Colleges

The community colleges are projected to receive -\$394 million LESS Proposition 98 in 2013-14. The following are the community college May Revision highlights:

Adult Education. The Administration withdraws their original proposal and reduces the \$300 million augmentation in favor of a proposal which provides more time to transition, is less destabilizing to the community colleges, and promotes collaboration between K-12 and CCC adult education providers. The Administration proposes the programmatic changes occur in the budget process via budget bill language and the education trailer bill. Specifically the proposal provides:

- \$30 M for planning and implementation grants allocated to be distributed to regional consortia of community colleges and school districts. The regional consortia will create a plan to serve adults in the region. Awardees would be selected by the Chancellor's Office and the State Department of Education and the funds would be appropriated in the CCC budget. In addition, the Administration proposes the typically one year encumbrance period be extended to two years in recognition of the time it will take to assemble the regional consortia.
- Regional consortia participants could include local correctional facilities, other local public entities, and community based organizations.

- Beginning in 2015-16, the Administration proposes \$500 million of NEW Proposition 98 funds for the “Adult Education Partnership Program” which shall be administered by the Chancellor’s Office. In order to be funded, a regional consortia shall include at a minimum one community college district (who will act as the fiscal agent) and one school district.
- The funding rate for the regional consortia shall equal the career development college preparation rate (enhanced non-credit rate) of \$3,232 per FTES (any statutory COLA proposed in 2013-14, 2014-15, and 2015-16 would increase the rate). It should be noted, prior to categorical flexibility K-12 adult education was funded at \$2,645 per ADA.
- The Administration’s plan specifies that only five non-credit categories (adult elementary and secondary education, vocational training, English as a second language, adults with disabilities, and citizenship) be funded by the new “Adult Education Partnership” program; HOWEVER a community college district may still have funded through the regular apportionment all nine non-credit categories specified in the Education code 84757 (parenting, programs for older adults, education programs for home economics, and health and safety education).
- Of the funds made available for the Adult Education Partnership Program, a MINIMUM of 2/3rds shall be restricted to existing providers in a regional consortia if they maintain their 2012-13 level of state funded spending for adult education and correctional education in 2013-14 and 2014-15.
- The Administration defines pre-collegiate course offerings as “adult education” and community colleges districts who offer this type of instruction will have it counted toward their maintenance of effort. The administration is NOT proposing to fund pre-collegiate credit courses now funded through the unrestricted apportionment at the lower career development college preparation rate beginning in 2015-16. Given CCCs are the largest providers of adult education/non-credit/pre-collegiate courses in the state it is expected much of the new funding will be earmarked for community colleges.

Other Significant Community College Adjustments

Budget Year

- \$87.5 million to fund a 1.57% COLA to the unrestricted apportionment
- \$89.4 million to fund 1.63% of enrollment restoration/access
- \$64 million of additional deferral buy-down. This amount represents 10% of the outstanding deferral (\$621 million) and reduces the outstanding deferral to \$557 million in the budget year.
- \$50 million to fund an augmentation of the Matriculation/Student Success and Support categorical program
 - Includes budget bill language which permits the Chancellor to utilize up to \$7 million for the purpose of procuring and/or developing E-Transcript and E-Planning tools.
 - The Administration withdrew its proposal to change census accounting practices and the May Revision proposes to develop for consideration, as part of the 2014-15 Budget, “a broad-based framework to improve student

success and establish appropriate incentives to encourage course and degree completions, as well as cost effectiveness”.

- Policy – Continue to require all students complete a FAFSA in order to obtain financial aid (including the BOG fee waiver). Provides one academic term to complete all documentation necessary to validate financial need and requires the Board of Governors develop standards for documenting independent student status. This policy would commence in the 2014-15 year.
 - This change to the current Board of Governors fee waiver eligibility criteria coupled with the requirement to complete a FAFSA will likely result in fewer BOG recipients. Staff note this as an issue, because several funding formulas are driven by the number of BOG recipients which will result in a reduced level for the Student Financial Aid Administration categorical program (-\$3.5 million) at exactly the time additional workload is placed upon financial aid offices.

Current Year

- \$179 million of additional deferral buy-down; this amount is added to the \$159 million earmarked in June 2012 during the 2012-13 budget deliberations. The two amounts combined equal \$339 million (35% buy-down of the outstanding \$961 deferral) and reduces the original \$961 million deferral to \$621 million in the current year.

Analysis

The Administration’s Adult Education proposal is much improved from the original proposal released in February. The Administration’s revised adult education proposal provides each district with flexibility to evaluate local priorities and determine the type of non credit courses to be offered. In addition, the Administration’s plan rewards districts who continued to prioritize the delivery of adult education during the fiscal downturn and despite the revenue uncertainty surrounding the passage of Proposition 30. While significant concern was raised in February regarding establishing the adult education program as a categorical, it should be noted that the Education trailer bill language ensures that at a minimum funding rate for the new program will receive a cost of living adjustment each time one is provided in the state budget. Over the two year planning period perhaps a mechanism can be devised to ensure the program receives “growth” in the future.

Legislative Response to Governor’s May Revision

The two house conference committee began meeting on Friday, May 31st to reconcile the differences between the Assembly and Senate adopted budgets. The largest issue to be resolved involves the revenue estimates on which the 2013-14 budget will be premised. Several days after the release of the Governor’s May Revision, the LAO released revenue estimates which projected \$3.2 billion dollars more than the Governor’s May Revision and both legislative houses passed budgets premised on the LAO’s higher revenue estimates.

THE SCEANARIOS PRESENTED BELOW REFLECT ACTIONS TAKEN IN EACH RESPECTIVE HOUSE HOWEVER, THIS IS A FLUID PROCESS AND SOME ACTIONS

TAKEN MAY BE CHANGED PRIOR TO CONFERENCE COMMITTEE. Differences between each legislative house and the Governor's May Revision will be noted in ITALIC. Differences between the Assembly and Senate will be highlighted in YELLOW and reflect the differences which must be reconciled in the two house conference committee prior to the June 15th constitutional deadline to have a budget passed by the legislature. A Proposition 98 spreadsheet is also attached to this item to track the changes between each legislative house.

Conference committee is comprised of the following eight individuals: Senator Mark Leno, Chair; Assembly Member Bob Blumenfield, Vice-Chair; Assembly Member Jeff Gorell (R); Assembly Member Holly J. Mitchell (D); Assembly Member Nancy Skinner (D); Senator Kevin de León (D); Senator Bill Emmerson (R); Senator Loni Hancock (D)

Assembly Community College proposal - Assembly proposes \$156 million more than Governor's May Revision

Budget Year

- \$87.5 million to fund a 1.57% COLA to the unrestricted apportionment
- \$88.2 million to fund 1.61% of enrollment restoration/access
- \$19.8 million of additional deferral buy-down. The Assembly proposes to pay down a LARGER amount in the CY and when coupled with that proposal the Assembly outstanding deferral would be \$561 million in the budget year.
- \$51 million for Prop 39
 - Distribute ALL Prop 39 funds based upon regional ADA calculation
 - Awards 75% of revenues as Prop 39 school grants (split 89/11 between K-12 & CCC), CA Energy Commission (CEC) to assist in evaluating proposals
 - Awards 25% of revenues as Prop 39 loans and loan guarantees administered by (CEC)
 - Coordination with Workforce Investment Board for workforce development components
 - Standardized accountability measurements
- \$201 million in select categorical augmentations over the May Revision in order to return programs to pre-2009/10 levels (see spreadsheet). Select highlights include:
 - \$28 million augmentation for the Matriculation program to fund a \$10 M augmentation for common assessment and additional resources to return the program to pre-2009/10 levels.
 - \$7.2 million for adult education planning grants despite the fact the Assembly rejected the Governor's May Revision Adult Education proposal.

Current Year

- \$220 million of deferral buy-down (\$40 million MORE than May Revision proposed). This reduces the outstanding deferral amount from \$801 million to \$581 million for the CY.

Assembly K-12/Community College Proposition 98 Split:

2012-13 CCC 10.46% K-12 89.54% (CCCs in Assembly budget are proposed to receive roughly \$278 million LESS Proposition 98 using the statutory split of 10.93%)

2013-14 CCC 10.70% K-12 89.30% (CCCs in Assembly budget are proposed to receive roughly \$129 million LESS Proposition 98 using the statutory split of 10.93%)

Senate Community College proposal

Budget Year - Senate proposes \$182 million more than Governor's May Revision

- \$87.5 million to fund a 1.57% COLA to the unrestricted apportionment
- \$89.4 million to fund 1.65% of enrollment restoration/access
- \$116 million of deferral buy-down (an additional \$52 million over the May Revision proposal) and when coupled with additional deferral buy-down proposed by the Senate in the CY, the outstanding deferral would be \$437 million in the budget year.
- \$51 million for Prop 39
 - The Senate left open the statutory authority for Prop 39 expenditures.
- \$65 million in select categorical augmentations over the May Revision (see spreadsheet). Select highlights include:
 - \$25 million augmentation EOPS
 - \$25 million augmentation for DSPS
 - \$7.8 million augmentation for CalWORKS
 - \$2.7 million augmentation for part-faculty programs
 - \$1.3 million augmentation for CARE
 - \$97 thousand for Academic Senate

Current Year

- \$248 million of deferral buy-down (\$68 million MORE than May Revision proposed). This reduces the outstanding deferral amount from \$801 million to \$553 million for the CY.
- \$30 million of one funds: \$12 M instructional equipment; \$12 M scheduled maintenance; \$6 M professional development

Senate K-12/Community College Proposition 98 Split:

2012-13 CCC 10.56% K-12 89.44% (CCCs in Senate budget are proposed to receive roughly \$221 million LESS Proposition 98 using the statutory split of 10.93%)

2013-14 CCC 10.88% K-12 89.12% (CCCs in Senate budget are proposed to receive roughly \$33 million LESS Proposition 98 using the statutory split of 10.93%)