

Joint Analysis

Governor's January Budget

January 10, 2024



California Community Colleges



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ASSOCIATION OF CHIEF BUSINESS OFFICIALS



ASSOCIATION OF CALIFORNIA
COMMUNITY COLLEGE ADMINISTRATORS



COMMUNITY COLLEGE
LEAGUE OF CALIFORNIA

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Purpose of Report

This analysis was prepared by the California Community Colleges Chancellor’s Office (Chancellor’s Office) with review and support from the:

- Association of California Community College Administrators (ACCCA),
- Association of Chief Business Officials (ACBO), and
- Community College League of California (League).

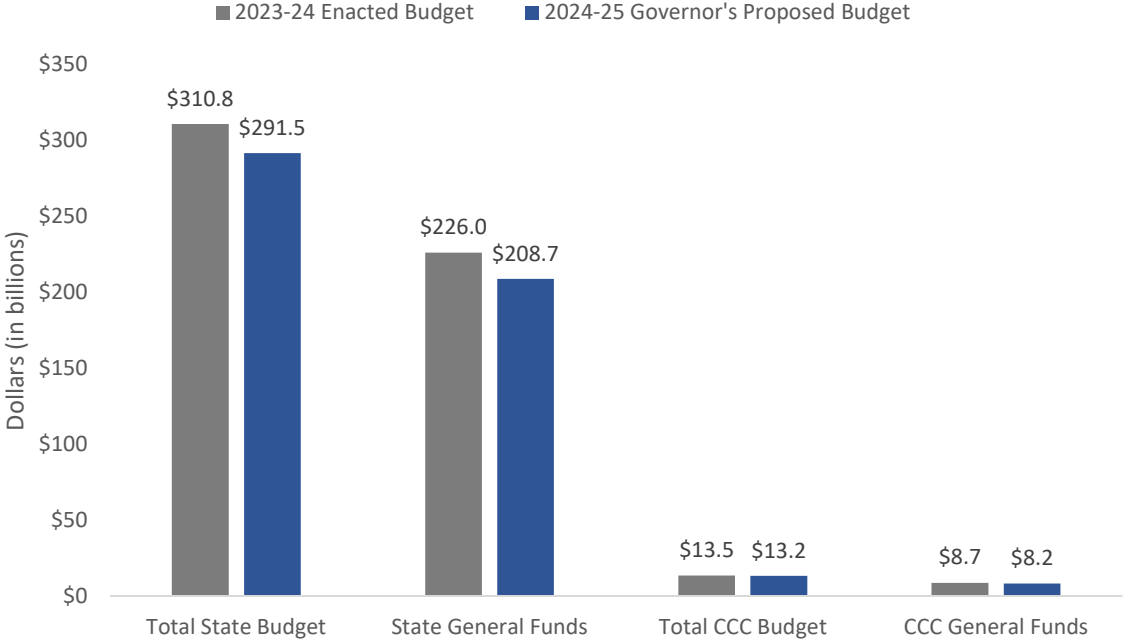
Its purpose is to provide information about the Governor’s January budget proposal as a common resource for each organization’s further analyses and advocacy efforts. Over the next several months, updated analyses will describe any proposed trailer bills, the Governor’s May Revision, and the enacted budget.

Summary of Key Budget Changes

Today, Governor Newsom released his budget proposal for the 2024-25 fiscal year. Following are some key changes in the proposal compared to the enacted budget for 2023-24.

- Under the proposal, the overall state budget would be lower than in 2023-24, decreasing by about 6% to \$291.5 billion, affected by a substantial shortfall in revenues resulting in an overall deficit of \$37.9 billion. General Fund spending would decrease by over \$17 billion (nearly 8%) to \$208.7 billion.

Figure 1: Proposed 2024-25 budget reflects projected deficit of \$38 billion (dollars in billions).



- The budget proposal for the California Community Colleges focuses on stability in the context of the state’s significant budget problem. It includes no major core reductions to programs or services, instead drawing on reserves and cancelling certain one-time projects and programs that were established but not yet funded. Overall, funding declines slightly compared to the current year enacted budget.
- The proposal for additional ongoing spending includes \$69.1 million for a 0.76% cost-of-living adjustment (COLA) for community college apportionments, about \$9.3 million for COLAs and adjustments to certain categorical programs, and \$29.6 million for systemwide enrollment growth of 0.5%.
- One-time funding in the proposal is limited to the expansion of nursing program capacity, with a \$60 million investment in 2024-25 and plans for that level of investment over five years.
- The Governor’s proposal includes capital outlay funds to support the construction phase for only one continuing project, using funds from Proposition 51, although additional projects may be added to the revised proposal in May.

State Budget Overview

The Governor’s Budget proposes modest additional ongoing resources for California Community Colleges appropriations and categorical programs, relying on a withdrawal of Proposition 98 Rainy Day funds.

BUDGET REFLECTS INCREASING REVENUE SHORTFALLS

The 2023 Budget Act was enacted in the context of an expected deficit of \$31.5 billion, using some funding delays and reductions from the two prior years along with internal fund shifts and borrowing to close that shortfall, but the deficit has worsened substantially.

Economic Conditions Create a Larger Budget Deficit

Since the 2023 Budget Act was enacted, revenues have fallen significantly behind budget act projections across 2022-23, 2023-24, and 2024-25 according to the [Legislative Analyst’s Office](#) (LAO). The 2023 Budget Act assumed that the state would end 2024-25 with a deficit of \$14 billion, a problem that is compounded by larger than expected revenue shortfalls. Declines in revenues during 2022 and 2023, related primarily to financial market distress, did not become clear until after the budget was passed due to delayed tax filing deadlines. The LAO now estimates that the state faces a \$68 billion deficit for 2024-25, and annual operating deficits of around \$30 billion per year for 2025-26 through 2027-28, amounting to total deficits that far exceed state reserves (about \$24 billion).

The Governor’s Budget projects a substantial deficit, but one that is smaller than that estimated by the LAO – about \$38 billion rather than \$68 billion. Capital gains represented an unprecedented share of personal income following the COVID-19 recession, reaching

11.6% in 2021 and contributing to significant state budget surpluses. The stock market dropped in 2022 and, while it largely recovered in 2023, capital gains have represented a much more average share of personal income recently, at around 5%. The budget proposal uses several mechanisms to deal with the projected shortfall, including some funding delays and reductions, internal borrowing and fund shifts, and withdrawal of some state reserves, leaving about \$18 billion in various state reserves. The proposal notes that the State Appropriations Limit (Gann Limit) has impeded the effectiveness of state policy to set aside reserves during budget surpluses (primarily Proposition 2), as deposits into reserves are counted as spending subject to the limit. The proposal indicates the need to explore changes to the law to allow for more savings during economic upswings.

District Revenue Protections Continue

The 2021 Budget Act extended the Student Centered Funding Formula’s (SCFF) hold harmless provision through 2024-25, under which districts will earn at least their 2017-18 total computational revenue (adjusted by COLA each year). The 2022 Budget Act extended the revenue protections in a modified form beginning in 2025-26, with a district’s 2024-25 funding representing its new “floor.” This revised hold harmless provision will no longer include adjustments to reflect cumulative COLAs over time, as is the case with the provision in effect through 2024-25. Starting in 2025-26, districts will be funded at their SCFF generated amount that year or their “floor” (2024-25 funding amount), whichever is higher.

PROPOSITION 98 ESTIMATES ADJUSTED DOWNWARD

Minimum Guarantee for Community Colleges Increases by about 1.5% from Revised Amount for Current Year

Each year, the state calculates a “minimum guarantee” for school and community college funding based on a set of formulas established in Proposition 98 and related statutes. To determine which formulas to use for a given year, Proposition 98 lays out three main tests that depend upon several inputs including K-12 attendance, per capita personal income, and per capita General Fund revenue. Depending on the values of these inputs, one of the three tests becomes “operative” and determines the minimum guarantee for that year. The state rarely provides funding above the estimated minimum guarantee for a budget year. As a result, the minimum guarantee determines the total amount of Proposition 98 funding for schools and community colleges. Though these formulas determine total funding, they do not prescribe the distribution of funding within the segments. The Governor and Legislature have significant discretion in allocating funding to various programs and services.

Table 1 shows the budget’s estimates of the minimum guarantee for the prior, current, and budget years. The community college share of Proposition 98 funding is at the traditional share of approximately 11% in each of these years. Included in this share is some K-12 funding, including a portion of Adult Education funding, a small amount of

pass-through funding for school district-based apprenticeship programs, and funding for K-12 Strong Workforce programs.

Table 1: California Community Colleges Proposition 98 Funding by Source (In Millions)

| Source | 2022-23 Revised | 2023-24 Revised | 2024-25 Proposed | Change From 2023-24 (Amount) | Change From 2023-24 (Percent) |
|---|-----------------|------------------|------------------|------------------------------|-------------------------------|
| ALL PROPOSITION 98 PROGRAMS | | | | | |
| General Fund | \$68,563 | \$74,633 | \$76,894 | \$2,261 | 3.0% |
| Local property tax | 29,742 | 30,953 | 32,185 | 1,232 | 4.0% |
| Totals | \$98,306 | \$105,586 | \$109,050 | \$3,493 | 3.3% |
| COMMUNITY COLLEGES ONLY ^a | | | | | |
| General Fund | \$7,634 | \$8,189 | \$8,193 | \$4 | 0.0% |
| Local property tax | 3,860 | 4,036 | 4,210 | 175 | 4.3% |
| Totals | \$11,494 | \$12,225 | \$12,403 | \$179 | 1.5% |

^a CCC totals include resources that go to the K-12 system via the Adult Education, Apprenticeship, and K-12 Strong Workforce programs.

Estimates for Current and Prior Years Have Decreased

The estimates of the Proposition 98 minimum guarantee for 2022-23 and 2023-24 decreased as compared to projections when the 2023-24 budget was enacted in June of last year. Changes to the estimates can occur if school enrollment, economic growth, or state revenues turn out to be different than expected. Specifically, the revised estimates for the prior and current years are substantially lower than was projected in June because of weaker than expected revenues. The revisions equate to a reduction of more than \$11 billion over the three budget years.

Withdrawal from Public School System Stabilization Account (PSSSA)

Proposition 2, approved by voters in November 2014, created the PSSSA, a new state reserve for schools and community colleges. Under Proposition 2, transfers are made to this account if several conditions are satisfied. Specifically, the state must have paid off all Proposition 98 debt created before 2014-15, the minimum guarantee must be growing more quickly than per capita personal income, and capital gains revenues must exceed 8% of total revenues. In tight fiscal times, the state must withdraw funding from the reserve to supplement the funding schools and community colleges receive under Proposition 98. The Governor’s budget proposal reflects withdrawals from the PSSSA to avoid major spending reductions in the face of the state’s substantial deficit. For the community colleges, the budget proposes withdrawals of \$235.9 million for 2023-24, and \$486.2 million in 2024-25 to support Student Centered Funding Formula resources. The proposal retains a balance of \$3.8 billion in the PSSSA at the end of 2024-25 (compared to the projected \$10.8 billion for 2023-24 in the 2023 Budget Act).

Though these transfers change *when* the state spends money on schools and community colleges, they do not directly change the *total amount* of state spending for schools and

community colleges across fiscal years. Specifically, transfers to the PSSSA count toward Proposition 98 totals in the year the transfer is made. As a result, appropriations to schools and community colleges in such a year could be lower than otherwise required by Proposition 98. However, in a year when money is spent out of this reserve, as is proposed for 2024-25, the amount transferred back to schools and community colleges is over and above the Proposition 98 amount otherwise required for that year.

California Community Colleges Funding

The Governor’s Budget includes \$48 million in ongoing policy adjustments for the community college system, compared to 2023-24 expenditure levels, as reflected in Table 2. However, considering technical adjustments along with changes to funding, the system would receive approximately \$3.6 million less in funding.

Table 2: Proposed 2024-25 Changes in Proposition 98 Funding for the System (In Millions)

| POLICY ADJUSTMENTS | |
|--|------------------|
| Ongoing (Proposition 98) | |
| Provide 0.76% COLA for SCFF | \$69.15 |
| Provide for 0.5% enrollment growth | \$29.59 |
| Provide 0.76% COLA for Adult Education Program | \$4.91 |
| Provide 0.76% COLA for Extended Opportunity Programs and Services (EOPS) | \$1.40 |
| Adjustments for financial aid administration | \$1.53 |
| Provide 0.76% COLA for Disabled Students Programs and Services (DSPS) | \$1.31 |
| Provide 0.76% COLA for Apprenticeship (community college districts RSI) | \$0.24 |
| Provide 0.76% COLA for CalWORKs student services | \$0.42 |
| Provide 0.76% COLA and an enrollment-based adjustment for Mandates Block Grant and reimbursements | \$0.94 |
| Provide 0.76% COLA for Cooperative Agencies Resources for Education (CARE) | \$0.25 |
| Provide 0.76% COLA for Childcare tax bailout | \$0.03 |
| Adjustment for affordable student housing ^a | -\$61.48 |
| Subtotal Ongoing (Proposition 98) Policy Adjustments | \$48.30 |
| One-Time (Proposition 98) | |
| Expand nursing program capacity | \$60.00 |
| Subtotal One-Time Policy Adjustments | \$60.00 |
| TECHNICAL ADJUSTMENTS | |
| Student Centered Funding Formula (SCFF) other base adjustments (aside from COLA and Growth) ^b | -\$111.92 |
| Subtotal Technical Adjustments | -\$111.92 |
| TOTAL CHANGES | -\$3.62 |

^a Current year funds are redirected to support affordable student housing programs that do not fit within the lease revenue approach. Redirected funds will be returned in a later year.

^b SCFF technical adjustments include DOF’s estimates of workload measures including reported FTES, supplemental, and success metrics.

Compared to the 2023-24 Budget Act, the estimated and proposed Total Computational Revenue (TCR) for the SCFF increases by \$42 million, from \$9.42 billion to \$9.46 billion. This reflects a proposed COLA of 0.76% (\$69.1 million) and FTES growth of 0.5% (\$29.6 million) and modified estimates for hold harmless and other underlying estimation factors. Further, the following adjustments are reflected in associated offsetting revenues (all comparisons are from the 2023-24 Budget Act to the 2024-25 Governor’s Budget proposal):

- Property tax revenues are estimated to increase by \$213 million from \$4.0 billion to \$4.2 billion.
- Enrollment Fee revenues are estimated to decrease by \$6.8 million from \$407.5 million to \$400.1 million.
- Education Protection Account funding is estimated to decrease by \$592 million from \$1.54 billion to \$944.8 million.

Table 3 reflects the 2023-24 Advance rates, along with the projected rates for 2024-25, as modified by COLA.

Table 3: Proposed 2024-25 Student Centered Funding Formula Rates (rounded)

| Allocations | 2023-24 P1 Rates ^a | Estimated Proposed 2024-25 Rates ^b | Estimated Change from 2023-24 (Amount) | Estimated Change from 2023-24 (Percent) |
|------------------------------------|-------------------------------|---|--|---|
| Base Credit ^a | \$5,238 | \$5,278 | \$40 | 0.76% |
| Incarcerated Credit ^a | 7,346 | 7,402 | 56 | 0.76% |
| Special Admit Credit ^a | 7,346 | 7,402 | 56 | 0.76% |
| CDCP | 7,346 | 7,402 | 56 | 0.76% |
| Noncredit | 4,417 | 4,451 | 34 | 0.76% |
| Supplemental Point Value | 1,239 | 1,248 | 9 | 0.76% |
| Student Success Main Point Value | 730 | 736 | 6 | 0.76% |
| Student Success Equity Point Value | 184 | 186 | 1 | 0.76% |
| Single College District | | | | |
| Small College | 6,439,546 | 6,488,487 | 48,941 | 0.76% |
| Medium College | 8,586,065 | 8,651,319 | 65,254 | 0.76% |
| Large College | 10,732,581 | 10,814,149 | 81,568 | 0.76% |
| Multi College District | | | | |
| Small College | 6,439,546 | 6,488,487 | 48,941 | 0.76% |
| Medium College | 7,512,806 | 7,569,904 | 57,097 | 0.76% |
| Large College | 8,586,065 | 8,651,319 | 65,254 | 0.76% |
| Designated Rural College | 2,048,172 | 2,063,738 | 15,566 | 0.76% |
| State Approved Centers | 2,146,516 | 2,162,829 | 16,314 | 0.76% |
| Grandparented Centers | | | | |

| | | | | |
|---------------------|-----------|-----------|--------|-------|
| Small Center | 268,316 | 270,356 | 2,039 | 0.76% |
| Small Medium Center | 536,629 | 540,708 | 4,078 | 0.76% |
| Medium Center | 1,073,257 | 1,081,414 | 8,157 | 0.76% |
| Medium Large Center | 1,609,886 | 1,622,122 | 12,235 | 0.76% |
| Large Center | 2,146,516 | 2,162,829 | 16,314 | 0.76% |

^aTen districts receive higher credit FTES rates, as specified in statute.

^bEstimated 2024-25 rates may change based on updated 2023-24 data and revenues.

Appendix B compares the Governor’s proposed funding adjustments for the system in 2024-25 to the Board of Governors’ budget request. Below we highlight a few of the Administration’s policy decisions and related information. Later in this analysis, we detail local funding by program, capital outlay funding, and state operations.

MAJOR POLICY DECISIONS FOCUS ON STABILITY

The proposed budget provides funding for a small COLA and enrollment growth, supported by withdrawals from the PSSSA. The limited one-time funds included in the proposal are targeted toward expanding nursing program capacity.

Apportionments Receive 0.76% COLA and 0.5% Growth

The proposal includes an increase of \$29.6 million **ongoing** to fund 0.5% enrollment growth and \$69.1 million **ongoing** to support a COLA of 0.76% for apportionments. While much smaller than in the last few years, the proposed COLA is the same as for the K-12 system. Another \$9.3 million **ongoing** would support a COLA of 0.76% for selected categorical programs and the Adult Education program.

Investment in Nursing Workforce is Proposed

The Governor’s budget addresses the Administration’s commitment to addressing California’s nursing shortage with a proposal to provide \$60 million **one-time** per year over the next five years to expand nursing program capacity in the community colleges and Bachelor of Science in nursing partnerships, following through on intent language included in the current year budget. Provisions governing how the funds are to be spent will be negotiated through the legislative process in spring 2024.

Statewide Funding Plan for Affordable Student Housing to Be Pursued

The 2023 Budget Act eliminated the 2022-23 General Fund appropriation for the Affordable Student Housing grants and instead called for those projects to be funded by locally issued lease revenue bonds. This change retroactively applied to the twelve community college projects originally funded in the 2022 Budget Act, and the seven new community college housing projects authorized in the 2023 Budget Act, as well as any future affordable student housing projects. The 2023 Budget Act provided ongoing funds to support debt service for student housing projects in 2022-23, 2023-24, and 2024-25 funded with lease revenue bonds. UC and CSU housing projects were to be funded with lease revenue bonds issued by those systems, and the Governor’s budget proposal maintains funding for these UC and CSU programs. Community college housing projects

were to be funded through local revenue bonds to be issued by community college districts or as part of a state pool. As an alternative to local lease revenue bonds, in the 2024-25 proposed budget, the Department of Finance (DOF) will pursue a trailer bill for a *statewide* lease revenue bond program by the Governor’s May Revision.

The 2023 Budget Act provided about \$61.5 million in ongoing General Funds for annual rental subsidies for affordable student housing. The Governor’s Budget proposal redirects these current year funds to support CCC affordable student housing programs that do not fit within a statewide lease revenue bond funding approach. Specifics will be shared in future trailer bill language. The proposal assumes redirected funds will be returned later and after determining an appropriate amount of ongoing funding needed to cover rental subsidies.

Cal Grant Reforms to Be Addressed in May Revision

The Fiscal Year 2022-23 State Budget enacted the Cal Grant Reform Act, making *all* community college students with financial need entitled to a revised “Cal Grant 2” financial aid award that would increase with inflation over time to support students’ total cost of attendance beyond tuition. However, implementation of the Cal Grant Reform Act was made dependent on the DOF determining, in the spring of 2024, that there would be sufficient revenues in the 2024-25 fiscal year to support this expansion of financial aid. The Administration will wait to make that determination until May, leaving opportunities for continued advocacy around the importance of the reforms for community college students.

LOCAL SUPPORT FUNDING IS LARGELY STABLE FOR ONGOING PROGRAMS

Table 4 shows proposed ongoing local assistance funding by program for the current and budget years. As the table shows, most categorical programs received level or workload funding in the Governor’s proposal, with certain programs receiving cost-of-living adjustments consistent with recent practices. Decreases in funding are related to revised estimates of underlying factors or removal of one-time funds. Given the expected state budget deficit, proposed one-time local assistance funding is limited to the \$60 million investment to expand nursing program capacity.

Table 4: California Community Colleges Ongoing Funding by Program^a (In Millions)

| Program | 2023-24 Revised | 2024-25 Proposed | Change Amount | Percent Change | Explanation of Change |
|---|-----------------|------------------|---------------|----------------|--|
| Student Centered Funding Formula | \$9,476.31 | \$9,463.13 | (\$13.18) | -0.14% | COLA, growth, and other base adjustments |
| Adult Education Program – Main ^b | 652.22 | 657.13 | 4.91 | 0.76% | COLA |
| Student Equity and Achievement Program | 523.98 | 523.98 | 0.00 | 0.00% | |

| | | | | | |
|--|--------|--------|--------|---------|---|
| Student Success Completion Grant | 362.60 | 412.60 | 50.00 | 13.79% | Adjust for revised estimate of recipients |
| Strong Workforce Program | 290.40 | 290.40 | 0.00 | 0.00% | |
| Part-time faculty health insurance | 200.50 | 200.49 | -0.01 | 0.00% | |
| Extended Opportunity Programs and Services (EOPS) | 183.08 | 184.48 | 1.39 | 0.76% | COLA |
| Disabled Students Programs and Services (DSPS) | 172.82 | 174.13 | 1.31 | 0.76% | COLA |
| Full-time faculty hiring | 150.00 | 150.00 | 0.00 | 0.00% | |
| California College Promise (AB 19) | 91.21 | 91.21 | 0.00 | 0.00% | |
| Integrated technology | 89.50 | 89.50 | 0.00 | 0.00% | |
| Financial aid administration | 78.49 | 80.02 | 1.53 | 1.95% | Waived fees and per unit adjustments |
| CalWORKs student services | 55.05 | 55.47 | 0.42 | 0.76% | COLA |
| NextUp (foster youth program) | 54.11 | 54.11 | 0.00 | 0.00% | |
| Basic needs centers | 43.29 | 43.29 | 0.00 | 0.00% | |
| Mathematics, Engineering, Science Achievement (MESA) | 39.42 | 39.42 | 0.00 | 0.00% | |
| Mandates Block Grant and reimbursements | 38.29 | 39.23 | 0.94 | 2.46% | COLA and enrollment-based adjustment |
| Apprenticeship (community college districts RSI) | 34.34 | 34.58 | 0.24 | 0.70% | COLA |
| Cooperative Agencies Resources for Education (CARE) | 33.48 | 33.73 | 0.25 | 0.76% | COLA |
| Student mental health services | 32.47 | 32.47 | 0.00 | 0.00% | |
| CA Apprenticeship Initiative | 30.00 | 30.00 | 0.00 | 0.00% | |
| Institutional effectiveness initiative | 41.50 | 27.50 | -14.00 | -33.73% | Removal of one-time funds |
| Part-time faculty compensation | 26.54 | 26.54 | 0.00 | 0.00% | |
| Rising Scholars Network | 25.00 | 25.00 | 0.00 | 0.00% | |
| Part-time faculty office hours | 23.63 | 23.63 | 0.00 | 0.00% | |
| Economic and Workforce Development | 22.93 | 22.93 | 0.00 | 0.00% | |

| | | | | | |
|--|-------|-------|-------|---------|---------------------------|
| Homeless and Housing Insecurity Program ("Rapid Rehousing") | 20.56 | 20.56 | 0.00 | 0.00% | |
| California Virtual Campus | 20.00 | 20.00 | 0.00 | 0.00% | |
| California Online Community College (Calbright College) | 15.00 | 15.00 | 0.00 | 0.00% | |
| Nursing grants | 13.38 | 13.38 | 0.00 | 0.00% | |
| Puente Project | 13.33 | 13.33 | 0.00 | 0.00% | |
| Lease revenue bond payments | 12.80 | 12.79 | -0.01 | 0.00% | |
| Equal Employment Opportunity Program | 17.08 | 12.77 | -4.31 | -25.26% | Removal of one-time funds |
| Dreamer Resource Liaisons | 11.60 | 11.60 | 0.00 | 0.00% | |
| Veterans Resource Centers | 10.82 | 10.82 | 0.00 | 0.00% | |
| Immigrant legal services through CDSS | 10.00 | 10.00 | 0.00 | 0.00% | |
| Classified Employee Summer Assistance Program | 10.00 | 10.00 | 0.00 | 0.00% | |
| LGBTQ+ Student Support | 10.00 | 10.00 | 0.00 | 0.00% | |
| Umoja | 9.18 | 9.18 | 0.00 | 0.00% | |
| Asian American and Native Hawaiian and Pacific Islander (AANHPI) Student Achievement Program | 8.00 | 8.00 | 0.00 | 0.00% | |
| Foster Parent Education Program | 6.15 | 6.15 | 0.00 | 0.00% | |
| Childcare tax bailout | 4.28 | 4.31 | 0.03 | 0.76% | COLA |
| Digital Course Content for Inmates | 3.00 | 3.00 | 0.00 | 0.00% | |
| Middle College High School Program | 1.84 | 1.84 | 0.00 | 0.00% | |
| Academic Senate | 1.80 | 1.80 | 0.00 | 0.00% | |
| Historically Black Colleges and Universities (HBCU) Transfer Pathway project | 1.38 | 1.38 | 0.00 | 0.00% | |
| African American Male Education Network and Development (A2MEND) | 1.10 | 1.10 | 0.00 | 0.00% | |
| FCMAT | 0.85 | 0.77 | -0.08 | -8.88% | Removal of one-time funds |

| | | | | | |
|---|--------------------|--------------------|----------------|-------------|--|
| Transfer education and articulation (excluding HBCU Transfer Pathway project) | 0.70 | 0.70 | 0.00 | 0.00% | |
| Total | \$12,973.99 | \$13,003.44 | \$29.45 | 0.2% | |

^a Table reflects total programmatic funding for the system, including amounts from prior years available for use in the years displayed.

^b The Adult Education program total includes resources that go to the K-12 system but are included in the CCC budget. The K-12 Strong Workforce program and K-12 Apprenticeship program are not listed above but are also included in the CCC budget.

CAPITAL OUTLAY INVESTMENTS ARE LIMITED

The Governor’s proposal includes capital outlay funding for only one continuing project using funds from Proposition 51, approved by voters in 2016. The project involves remodeling the theater and McCloud Hall at College of the Siskiyous, with a cost of \$29.3 million in 2024-25. Over the next few months, as districts obtain State approval of their Preliminary Plans/Working Drawings package, the Governor’s revised budget will likely include them as a continuing project.

The Administration also commits to pursuing a statewide education facilities bond, with the exact amount of the bond and the split of funds to be determined through negotiations with the Legislature.

STATE OPERATIONS RECEIVES SMALL INCREASE

The Chancellor’s Office provides leadership and oversight to the system, administers dozens of systemwide programs, and manages day-to-day operations of the system. The office is involved in implementing several recent initiatives including Guided Pathways, basic skills reforms, and the Student Centered Funding Formula, as well as Vision 2030. In addition, the Chancellor’s Office provides technical assistance to districts and conducts regional and statewide professional development activities. The Governor’s budget proposal for 2024-25 raises funding for Chancellor’s Office operations from non-Proposition 98 General Fund by about 5% to \$27.1 million, due primarily to negotiated employee compensation increases for all state employees, and maintains \$12.2 million in special funds and reimbursement authority.

Next Steps

For more information throughout the budget process, please visit the Budget News section of the Chancellor’s Office website:

<https://www.cccco.edu/About-Us/Chancellors-Office/Divisions/College-Finance-and-Facilities-Planning/Budget-News>

Appendix A: Overview of the State Budget Process

The Governor and the Legislature adopt a new budget every year. The Constitution requires a balanced budget such that, if proposed expenditures exceed estimated revenues, the Governor is required to recommend changes in the budget. The fiscal year runs from July 1 through June 30.

Governor’s Budget Proposal. The California Constitution requires that the Governor submit a budget to the Legislature by January 10 of each year. The Director of Finance, who functions as the chief financial advisor to the Governor, directs the preparation of the Governor’s Budget. The state’s basic approach is incremental budgeting, estimating first the costs of existing programs and then adjusting those program levels. By law, the chairs of the budget committees in each house of the Legislature—the Senate Budget and Fiscal Review Committee and the Assembly Budget Committee—introduce bills reflecting the Governor’s proposal. These are called budget bills, and the two budget bills are identical at the time they are introduced.

Related Legislation. Some budget changes require that changes be made to existing law. In these cases, separate bills—called “trailer bills”—are considered with the budget. By law, all proposed statutory changes necessary to implement the Governor’s Budget are due to the Legislature by February 1.

Legislative Analyses. Following the release of the Governor’s Budget in January, the LAO begins its analyses of and recommendations on the Governor’s proposals. These analyses, each specific to a budget area (such as higher education) or set of budget proposals (such as transportation proposals), typically are released beginning in mid-January and continuing into March.

Governor’s Revised Proposals. Finance proposes adjustments to the January budget through “spring letters.” Existing law requires Finance to submit most changes to the Legislature by April 1. Existing law requires Finance to submit, by May 14, revised revenue estimates, changes to Proposition 98, and changes to programs budgeted based on enrollment, caseload, and population. For that reason, the May Revision typically includes significant changes for the California Community Colleges budget. Following release of the May Revision, the LAO publishes additional analyses evaluating new and amended proposals.

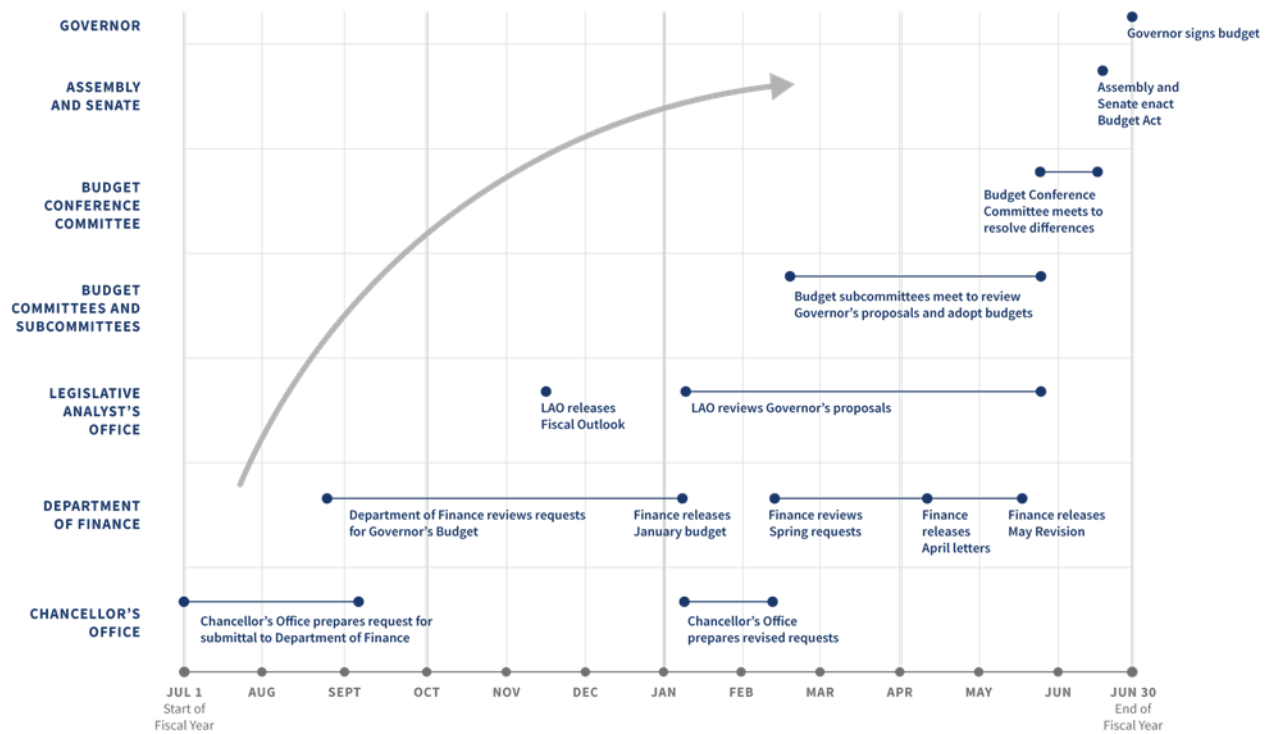
Legislative Review. The budget committees assign the items in the budget to subcommittees, which are organized by areas of state government (e.g., education). Many subcommittees rely heavily on the LAO analyses in developing their hearing agendas. For each January budget proposal, a subcommittee can adopt, reject, or modify the proposal. Any January proposals not acted on remain in the budget by default. May proposals, in contrast, must be acted on to be included in the budget. In addition to acting on the Governor’s budget proposals, subcommittees also can add their own proposals to the budget.

When a subcommittee completes its actions, it reports its recommendations back to the full committee for approval. Through this process, each house develops a version of the budget that is a modification of the Governor’s January budget proposal.

A budget conference committee is then appointed to resolve differences between the Senate and Assembly versions of the budget. The administration commonly engages with legislative leaders during this time to influence conference committee negotiations. The committee’s report reflecting the budget deal between the houses is then sent to the full houses for approval.

Budget Enactment. Typically, the Governor has 12 days to sign or veto the budget bill. The Governor also has the authority to reduce or eliminate any appropriation included in the budget. Because the budget bill is an urgency measure, the bill takes effect as soon as it is signed.

SEQUENCE OF THE ANNUAL STATE BUDGET PROCESS



Appendix B: Board of Governors’ Budget and Legislative Request Compared to Governor’s Budget Proposal

The system budget request considered needs over multiple years to achieve *Vision 2030* and Roadmap goals, and support students’ economic mobility.

| Board of Governor’s Request | Governor’s Budget Proposal |
|---|--|
| Ongoing Investments | |
| Foundational Resources. \$500 million for base funding increase. | Provides \$69.1 million for a COLA of 0.76% and \$29.6 million for 0.5% enrollment growth. |
| Pathways and Student Supports. \$60 million increase for DSPTS; \$40 million for Childcare Expansion Fund; \$30 million for California Apprenticeship Initiative; \$6 million to expand Military Articulation Platform. Extension of deadline for common course numbers from 2024 to 2027. Policy changes to provide equitable access to dual enrollment pathways. | See one-time funds for nursing program expansion below. |
| Support for Faculty. \$50 million for faculty supports (office hours, professional development, curriculum development) and full-time faculty hiring69.. | Not included. |
| Technology and Data Sharing. \$24.9 million to launch Phase 1 of Common ERP transition | Not included. |
| One-Time Investments | |
| Pathways and Student Supports. | Provides \$60 million per year for five years to expand nursing program capacity. |
| Technology and Data Sharing. \$310.1 million for Phase 1 of Common ERP transition (specifies plan to request another \$214 million in 2027-28 for Phase 2). | Not included. |
| Non-Proposition 98 Investments | |
| College Affordability and Supports. State-issued lease revenue bonds to support 19 approved and 5 new student housing projects. Policy changes for flexibility in the SSCG program for DSPTS students, and study of structural barriers to residency. | Redirects current year funds and commits to pursuing a statewide lease revenue bond program in the May Revision. |
| Capacity to Support the System. General Fund support for a new Vice Chancellor of Information Security, Assistant Vice Chancellor of Workforce Development, and Director of Operations and Special Initiatives. Policy changes to streamline legislative reporting requirements. | Not included. |
| Workforce Education. Policy changes to better align EWD program with Strong Workforce, and to extend use | Not mentioned. |

| | |
|---|--|
| of multi-criteria screening factors for limited enrollment healthcare program admissions. | |
|---|--|

Appendix C: Local Budgets and State Requirements

BUDGET PLANNING AND FORECASTING

Based on the information used in developing the state budget, it would be reasonable for districts to plan their budgets using information shown in Table C-1 below.

Table C-1: Planning Factors for Proposed 2024-25 Budget

| Factor | 2022-23 | 2023-24 | 2024-25 |
|---|---------|---------|---------|
| Cost-of-living adjustment (COLA) | 6.56% | 8.13% | 0.76% |
| State Lottery funding per FTES ^a | \$237 | \$249 | TBD |
| Mandated Costs Block Grant funding per FTES ^b | \$32.68 | \$32.68 | TBD |
| RSI reimbursement per hour ^b | \$8.82 | \$8.82 | TBD |
| Financial aid administration per College Promise Grant ^b | \$0.91 | \$0.91 | \$0.91 |
| Public Employees' Retirement System (CalPERS) employer contribution rates | 25.37% | 26.28% | 27.80% |
| State Teachers' Retirement System (CalSTRS) employer contribution rates | 19.10% | 19.10% | 19.10% |

^a2024-25 estimate not available

^bEstimates will be updated when budget bill language becomes available.

STATE REQUIREMENTS FOR DISTRICT BUDGET APPROVAL

Existing law requires the governing board of each district to adopt an annual budget and financial report that shows proposed expenditures and estimated revenues by specified deadlines. Financial reporting deadlines are shown in Table C-2.

Table C-2: Standard Financial Reporting Deadlines in Place for 2024-25

| Activity | Regulatory Due Date | Title 5 Section |
|---|---------------------|-----------------|
| Submit tentative budget to county officer. | July 1, 2024 | 58305(a) |
| Make available for public inspection a statement of prior year receipts and expenditures and current year expenses. | September 15, 2024 | 58300 |
| Hold a public hearing on the proposed budget. Adopt a final budget. | September 15, 2024 | 58301 |
| Complete the adopted annual financial and budget report and make public. | September 30, 2024 | 58305(d) |
| Submit an annual financial and budget report to Chancellor's Office. | October 10, 2024 | 58305(d) |
| Submit an audit report to the Chancellor's Office. | December 31, 2024 | 59106 |

If the governing board of any district fails to develop a budget as described, the chancellor may withhold any apportionment of state or local money to the district for the current fiscal year until the district makes a proper budget. These penalties are not imposed on a district if the chancellor determines that unique circumstances made it

impossible for the district to comply with the provisions or if there were delays in the adoption of the annual state budget.

The total amount proposed for each major classification of expenditures is the maximum amount that may be expended for that classification for the fiscal year. Through a resolution, the governing board may make budget adjustments or authorize transfers from the reserve for contingencies to any classification (with a two-thirds vote) or between classifications (with a majority vote).

STATE REQUIREMENTS RELATED TO EXPENDITURES

State law includes two main requirements for districts' use of apportionments. The Chancellor's Office monitors district compliance with both requirements and annually updates the Board of Governors.

Full-Time Faculty Obligation

Education Code Section 87482.6 recognizes the goal of the Board of Governors that 75% of the hours of credit instruction in the California Community Colleges should be taught by full-time faculty. Each district has a baseline reflecting the number of full-time faculty in 1988-89. Each year, if the Board of Governors determines that adequate funds exist in the budget, districts are required to increase their base number of full-time faculty over the prior year in proportion to the amount of growth in funded credit full-time equivalent students. Funded credit FTES includes emergency conditions allowance protections, such as those approved for fires and for the COVID-19 pandemic. Districts with emergency conditions allowances approved per regulation will not have their full-time faculty obligation reduced for actual reported FTES declines while the protection is in place. The target number of faculty is called the Faculty Obligation Number (FON). An additional increase to the FON is required when the budget includes funds specifically for the purposes of increasing the full-time faculty percentage. The chancellor is required to assess a penalty for a district that does not meet its FON for a given year.

Fifty Percent Law

A second requirement related to budget levels is a statutory requirement that each district spend at least half of its Current Expense of Education each fiscal year for salaries and benefits of classroom instructors. Under existing law, a district may apply for an exemption under limited circumstances.

Appendix D: Districts' Fiscal Health

The Board of Governors has established standards for sound fiscal management and a process to monitor and evaluate the financial health of community college districts. These standards are intended to be progressive, with the focus on prevention and assistance at the initial level and more direct intervention at the highest level.

Under that process, each district is required to regularly report to its governing board the status of the district's financial condition and to submit quarterly reports to the Chancellor's Office three times a year in November, February, and May. Based on these reports, the Chancellor is required to determine if intervention is needed. Specifically, intervention may be necessary if a district's report indicates a high probability that, if trends continue unabated, the district will need an emergency apportionment from the state within three years or that the district is not in compliance with principles of sound fiscal management. The Chancellor's Office's intervention could include, but is not limited to, requiring the submission of additional reports, requiring the district to respond to specific concerns, or directing the district to prepare and adopt a plan for achieving fiscal stability. The Chancellor also could assign a fiscal monitor or special trustee.

The Chancellor's Office believes that the evaluation of fiscal health should not be limited to times of crisis. Accordingly, the Fiscal Forward Portfolio has been implemented to support best practices in governance and continued accreditation, and to provide training and technical assistance to new chief executive officers and chief business officers through personalized desk sessions with Chancellor's Office staff.

The Chancellor's Office's ongoing fiscal health analysis includes review of key financial indicators, results of annual audit reports, and other factors. A primary financial health indicator is the district's unrestricted reserves balance. **The Chancellor's Office recommends that districts adopt policies to maintain sufficient unrestricted reserves with a suggested minimum of two months of general fund operating expenditures or revenues, consistent with Budgeting Best Practices published by the Government Finance Officers Association.**

Districts are strongly encouraged to regularly assess risks to their fiscal health. The Fiscal Crisis and Management Assistance Team has developed a Fiscal Health Risk Analysis for districts as a management tool to evaluate key fiscal indicators that may help measure a district's risk of insolvency in the current and two subsequent fiscal years.

Appendix E: Glossary

Appropriation: Money set apart by legislation for a specific use, with limits in the amount and period during which the expenditure is to be recognized.

Augmentation: An increase to a previously authorized appropriation or allotment.

Bond Funds: Funds used to account for the receipt and disbursement of non-self-liquidating general obligation bond proceeds.

Budget: A plan of operation expressed in terms of financial or other resource requirements for a specific period.

Budget Act (BA): An annual statute authorizing state departments to expend appropriated funds for the purposes stated in the Governor's Budget, amended by the Legislature, and signed by the Governor.

Budget Year (BY): The next state fiscal year, beginning July 1 and ending June 30, for which the Governor's Budget is submitted (i.e., the year following the current fiscal year).

Capital Outlay: Expenditures that result in acquisition or addition of land, planning and construction of new buildings, expansion or modification of existing buildings, or purchase of equipment related to such construction, or a combination of these.

Cost of Living Adjustment (COLA): Increases provided in state-funded programs intended to offset the effects of inflation.

Current Year (CY): The present state fiscal year, beginning July 1 and ending June 30 (in contrast to past or future periods).

Department of Finance (DOF or Finance): A state fiscal control agency. The Director of Finance is appointed by the Governor and serves as the chief fiscal policy advisor.

Education Protection Account (EPA): The Education Protection Account (EPA) was created in November 2012 by Proposition 30, the Schools and Local Public Safety Protection Act of 2012, and amended by Proposition 55 in November 2016. Of the funds in the account, 89 percent is provided to K-12 education and 11 percent to community colleges. These funds are set to expire on December 31, 2030.

Expenditure: Amount of an appropriation spent or used.

Fiscal Year (FY): A 12-month budgeting and accounting period. In California state government, the fiscal year begins July 1 and ends the following June 30.

Fund: A legal budgeting and accounting entity that provides for the segregation of moneys or other resources in the State Treasury for obligations in accordance with specific restrictions or limitations.

General Fund (GF): The predominant fund for financing state operations; used to account for revenues that are not specifically designated by any other fund.

Governor's Budget: The publication the Governor presents to the Legislature by January 10 each year, which includes recommended expenditures and estimates of revenues.

Lease Revenue Bond: Lease-revenue bonds are used in the state’s capital outlay program to finance projects. The revenue stream paying the debt service on the bond is created from lease payments made by the occupying entity to the governmental financing entity which constructs the facility or causes it to be constructed.

Legislative Analyst’s Office (LAO): A nonpartisan office that provides fiscal and policy advice to the Legislature.

Local Assistance: Expenditures made for the support of local government or other locally administered activities.

May Revision: An update to the Governor’s Budget presented by Finance to the Legislature by May 14 of each year.

Past Year or Prior Year (PY): The most recently completed state fiscal year, beginning July 1 and ending June 30.

Proposition 98: A section of the California Constitution that, among other provisions, specifies a minimum funding guarantee for schools and community colleges. California Community Colleges typically receive 10.93% of the funds.

Related and Supplemental Instruction (RSI): An organized and systematic form of instruction designed to provide apprentices with knowledge including the theoretical and technical subjects related and supplemental to the skill(s) involved.

Reserve: An amount set aside in a fund to provide for an unanticipated decline in revenue or increase in expenditures.

Revenue: Government income, generally derived from taxes, licenses and fees, and investment earnings, which are appropriated for the payment of public expenses.

State Operations: Expenditures for the support of state government.

Statute: A law enacted by the Legislature.

Workload Budget: The level of funding needed to support the current cost of already-authorized services.