

Budget Update: 2014-15 Governor's Budget

Fueled by a more positive economic climate – notably the strength of the stock market – and the revenues generated by Proposition 30, the Governor's proposed budget for the 2014-15 fiscal year would expedite the system's recovery from the deep reductions of the recent economic downturn. While there are still many details to be examined in the coming days and weeks, what follows are key highlights of the Governor's proposal.

State Resources

The general fund revenues for the state are estimated at \$108.7 billion and expenditures of \$106.7 billion, leaving a balance of approximately \$1.9 billion. The estimated general fund revenues would exceed 2007-08 amounts for the first time since the onset of the great recession. Despite this positive news, the Governor Brown, both in the budget summary and in his press conference, took great pains to point out several reasons for caution, including standard recessionary cycles, the short term nature of Proposition 30, outstanding state debts, and a tax system heavily reliant on capital gains.

Education Highlights

Proposition 98 - The approved budget for 2013-14 set the K-14 minimum guarantee at \$55.3 billion. For 2014-15, that Governor estimates the guarantee at \$61.6 billion - a year over year increase of about 11.4%. Additionally, as the budget finds that the guarantee for the current and prior years was underfunded, \$3.3 billion in additional one-time K-14 resources are provided to settle up the difference. As noted below, the Governor proposes to primarily use these one-time resources to pay down deferral obligations.

California Community Colleges - The chief budget highlights as they pertain to the CCCs include:

- Access - \$155.2 million to fund a 3% restoration of access. This would allow colleges to add approximately 70,000 students (headcounts). The budget proposes that the Board of Governors adopt a formula for local growth allocations that gives priority to districts "identified as having the greatest unmet need in adequately serving their community's higher educational needs." The budget summary states that all districts will be eligible for expanded access and that districts will eventually be restored to pre-recession levels.
- COLA - \$48.5 million to fund a statutory COLA of 0.86%.
- Student Success - \$200 million to support student success programs and strengthen support for underrepresented students. This includes \$100 million for the Student Success and Support Program and \$100 million to close gaps in access and achievement for underrepresented students groups, as identified in Student Equity Plans.
- Deferred Maintenance and Instructional Equipment - \$175 million to be evenly split between deferred maintenance and instructional equipment. These dollars are available on a one-time basis.

- Deferrals - \$235.6 million in budget year funding to pay down deferrals. Combined with \$356.8 million proposed in one-time funds for this purpose, this would completely eliminate the system's inter-year deferrals.
- Proposition 39 - \$39 million in funds owing to Proposition 39 to address energy efficiency projects and workforce development.
- Improving Statewide Performance – \$2.5 million is provided to provide local technical assistance to support implementation of effective practices in all districts, with priority placed on underperforming districts. Additionally, the Chancellor's Office, will receive \$1.1 million and 9 new positions to aid this effort by developing indicators of student success and to monitor performance.
- Flexibility - The Governor proposes to allow districts to reallocate up to 25% of funds from select categorical programs (EOPS, CALWORKs, and the Basic Skills Initiative) to other federal, state, or local programs to meet the needs of underrepresented student groups as identified in Student Equity Plans.
- RDAs - The Governor proposes to improve the stability of the base apportionment by moving up the deadline for determining the amount of backfill funding necessary to resolve shortfalls stemming from RDA funds. This should help to resolve deficits prior to the end of the fiscal year rather than after the fact. The Governor proposes to initiate this change in the current year, and he provides \$38.4 million for 2013-14 and \$35.6 million for 2014-15 to account for the shift.
- Apportionment stabilization - As you may know, Proposition 30 requires that each district receive at least \$100 per FTES from the Education Protection Account created by the ballot initiative. This resulted in additional unfunded obligations to districts that would not have otherwise received state General Fund. The administration proposes to fund these obligations not only for 2014-15 and subsequent years, but also to backfill obligations from 2012-13 and 2013-14. The Governor attempts to further stabilize the base apportionment by estimating local obligations for FTES stability and restoration costs provided in statute. Broadly, these changes are intended to mitigate structural deficits that have plagued the system in recent years.
- Adult Education - The Governor reiterates his commitment to provide funding in the 2015-16 budget to implement to plans being developed by regional adult education consortia.
- Innovative Models of Higher Education – \$50 million in one-time funding (non-Proposition 98) is proposed for incentive awards that recognize models of innovation in higher education that 1) increase the number of students earning bachelor's degrees, 2) increase the number of bachelor's degrees earned within four years, and 3) ease transfer the state's education system.

The Governor does not propose to raise student fees, nor does he propose to fund FTES on completion or to require all students seeking fee waivers to complete a FAFSA. Further, the Governor states the intent to devise a plan in the 2015-16 fiscal year that will resolve the CalSTRS fund shortfall within 30 years.

UC and CSU - The Governor continues the four-year investment plan begun in 2013-14 by funding 5% increases in general fund support for UC and CSU. This equates to an increase of

\$142.2 million each for the UC Regents and the CSU Board of Trustees. The universities are expected to adopt three-year sustainability plans that set targets for key measures. Further, the Administration reiterates its expectation that current tuition and fee levels are maintained through 2016-17.

K-12 - The Governor proposes to continue making progress toward implementing the newly instituted Local Control Funding Formula. Ongoing K-12 per pupils funds rates expenditures increase to \$9,194 in 2014-15, up from \$8,469 in the current year. The Governor proposes to eliminate year over year deferrals in K-12 just as he does for the Colleges.

CalSTRS – Among the concerns expressed by the Governor include the state’s long-term unfunded liability of \$80.4 billion to CalSTRS. Governor Brown states his intention to develop a plan, commencing in 2015-16, will retire this liability over 30 years. While no specifics are proposed, the summary documents suggest increased contributions on the part of the employers, employees and the state to be phased in over time.

Constitutional Amendment – The Governor announced his intention to propose constitutional amendment strengthen the state’s Rainy Day Fund that was established in 2004 by Proposition 58, though no language has yet been provided. The amendment would base deposits into the Rainy Day Fund in relation to the percentage of general fund represented by capital gains. In years in which that percentage is 6.5% or higher, state revenues would flow into the Rainy Day Fund up to 10% of state revenues for that year.

Among the goals of the Governor’s proposal would be to smooth out the “sharp ups and downs” of Proposition 98. In the case of Proposition 98, funds that exceed amounts that would fund growth and COLA costs could be set aside and allocated in down years when Proposition 98 revenues are insufficient to fund growth and COLA costs for that year.

Conclusion

While the proposed investment in public education is welcome news, some reasons for caution remain. As noted by Governor Brown, the state’s revenues and the Proposition 98 calculation are highly volatile due a reliance on capital gains. Both the Department of Finance and the Legislative Analyst’s Office note that recessions tend to occur every 5 to 7 years, and we are about 4.5 years into a recovery. We should also remember that Proposition 30 is temporary and will begin phasing out in 2017.

There are many details to review in the coming days and weeks, but these are the major highlights. Keep in mind that we remain several steps removed from an enacted budget. The next steps include the release of budget bills, trailer legislation, and review by the Legislative Analyst’s Office and by legislative committees. Revenues will revised in May, which sets the table for the passage and approval of a final budget.