Agenda Item Details
Meeting: Jun 08, 2015 - June 8, 2015 Board Meeting
Category: H. Action Items (6:40pm)
Subject: 10. Approve 2015-20 Budget Planning Assumptions
Access: Public
Type: Action, Academic and Professional Matter (No), Administrator Initiating Item: Victoria Lewis

Public Content
The Governor's 2015-16 May Revise was released on May 14, 2015 (See Attachment B). The 2015-16 budget information and multi-year planning assumptions for the Governor's budget were distributed to the college community as follows:

May 14, 2015- A memo from the Vice Chancellor, College Finance and Facilities Planning at the California Community Colleges Chancellor's Office was forwarded to the College Planning Council and the management team (See Attachment A). The information and impacts to Cabrillo will be discussed with the College Planning Council on June 3, 2015.

The 2015-16 state budget, 2015-20 local budget challenges and next steps in budget planning will be presented.

All of the information listed above can be accessed at the Vice President of Administrative Services webpage under the Budget Information Center heading.

2015 through 2020 Multi-Year Base Budget Planning Assumptions
(Attachment C)

- The college will go into budget stability for 2015-16. The college will report the minimum FTES required to maintain 10,000 FTES overall and 1,000 FTES at the Watsonville Center; 10,000. In 2016-17 the college will be funded for the amount of FTES reported. The sustainable enrollment cap is still under review. As of this writing, the new cap in 2016-17 will be 10,500 FTES. The college is expected to lose $2,000,000 of ongoing funding as a result of the decline from 10,887 FTES to 10,500 FTES. The 2014-15 budget planning assumptions have been updated to reflect funding for an FTES level of 10,887.
- The 2015-16 budget projection includes funding for a COLA of 1.02%; $575,000 for Cabrillo. COLA increases are not expected for future years. Proposition 30 sales tax increases begin phasing out in 2016 and property tax increases phase out in 2018.
- The new growth/access formula for community colleges calculates allocations based on various factors such as adults without college attainment, unemployed adults, households below the poverty line, etc., but the growth must be earned by demonstrating a gap between students currently being served and unmet demand. Since the college will be in budget stability in 2015-16 no growth or access funds will be earned.
- Beginning in 2015-16 enhanced non-credit courses will be paid at the credit rate. Cabrillo does not currently offer enhanced non-credit courses. Cabrillo has developed new curriculum for enhanced non-credit courses that is under review at the state chancellor's office. The college expects to begin offering these courses in 2017-18.
- The budget also includes an increase in the base allocation (ongoing unrestricted general fund revenue) estimated at $2,200,000 for Cabrillo. The funds will be allocated based on a formula.
Expenditure increases and decreases include: a reduction of funded full-time faculty positions and increases in step and column, medical benefits, retiree medical benefits, and other operating expenses.

A tentative agreement was reached with CCFT for total compensation for 2015-16 on May 22. The fiscal impact of the agreement will be included in the 2015-16 Final Budget document.

STRS and PERS rates are expected to increase significantly in the out years; 4.33%, 6.18%, 8.03% and 9.88% from 2016-17 through 2019-20. These expense increases plus the expected loss of $2,000,000 in apportionment revenue are the two biggest pressure points causing the college’s deficit to increase by $12.2 million in 2019-20.

Immediate action is needed to reduce the college’s ongoing expenditure budget to align with the new, reduced cap and expenditure increases. The updated planning assumptions include the first round of budget reductions; $377,330.

The College Planning Council is implementing a College Restructuring Process that will be used to reduce the college’s expenditure budget by $2,000,000 effective July 1, 2016.

Unallocated One-Time Operating Reserves (Attachment D)

- The unallocated operating reserve balance as of May 26, 2015 is $1.8 million. Increases and decreases occur in the reserve throughout the fiscal year. The May Revise includes a one-time distribution of state mandate reimbursement funds estimated at $6 million. Funds will be distributed on a per FTES basis.
- The Governing Board is increasing the general reserve from 5% to 7% utilizing one-time, unallocated operating reserves.
- Other one-time reserves will be established as part of the 2015-16 Final Budget for:
  - STRS/PERS
  - Retiree Benefit Liability
  - Facilities/IT Infrastructure
  - Program Planning Allocations

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Colleagues,

This morning the Governor released his May Revision to the proposed 2015-16 budget. The actual revenues that have accrued to the state treasury over the course of the current fiscal year have significantly outpaced estimates made at the time of the Governor’s January proposal. The increased revenues have a strong upward effect on the Proposition 98 minimum guarantee – a cumulative increase of $6.1 billion over the 2013-14, 2014-15, and 2015-16 fiscal years. Of this amount, $2.7 billion is attributable to the budget year.

While more detail will be available in the coming days, the key highlights of the Governor’s revised budget relevant to the California Community Colleges are as follows:

- $49.7 million to increase access from 2 percent to 3 percent ($156.5M total for 2015-16).

- A decrease of $31.3 million to reflect a downward adjustment in the COLA from 1.58% to 1.02%

- $75 million to support an increase in full-time faculty hiring. Funding would be allocated per FTES, but districts with relatively low proportions of full-time faculty would be required to hire more than districts with relatively high proportions of full-time faculty.

- $141.7 million in additional funds for support of district general operating expenses, bringing the proposed total to $266.7 million for the 2015-16 fiscal year.

- $274.7 million in additional one-time funds to pay down prior mandate obligations, bringing the proposed total to $626 million. These funds would distributed on a per-FTES basis.

- $148 million for deferred maintenance and instructional equipment. Of this amount, $48 million is attributable to the current fiscal year. No local match is required.

- $60 million in one-time funds for the Basic Skills and Student Outcomes Transformation Program. These funds are intended to improve basic skills instruction through adoption and/or expansion of evidence-based models of placement, remediation, and student support that will aid the progress and success of basic skills students. More detail will be available in the forthcoming trailer bill.

- $15 million increase for Student Equity Plan funding, bringing the total proposed increase to $115 million for the 2015-16 fiscal year. Concurrently, provisional language will require the implementation of SB 1023 (Liu, 2014), which authorizes a pilot program to provide additional support of foster youth who participate in EOPS.

- $15 million increase for the Institutional Effectiveness Partnership Initiative. Of this amount, $3 million will go toward technical assistance and the remaining $12 million is for the development and dissemination of effective practices. Provisional language would prioritize development of curriculum and practices for members of the California Conservation Corps and for inmates
pursuant to SB 1391 (Hancock, 2014). There will also be language included in the budget encouraging districts to offer up funding to enhance inmate education efforts.

- $2.5 million to fund the COLA for the EOPS, DSPS, CalWORKs, and the Childcare Tax Bailout programs.

- $2 million in one-time funds for a pilot program to foster collaboration between colleges and CSU campuses relating to basic skills instruction for incoming CSU students.

- A decrease of $825,000 in energy efficiency funding pursuant to the California Clean Energy Jobs Act (Proposition 39, 2012). This reduces the amount available in 2015-16 to $38.7 million.

- $25 million increase in Proposition 98 funds for the Awards in Innovation in Higher Education. This would bring the proposed total funding to $50 million for the 2015-16 fiscal year (half Prop 98, half non-98). The May Revision would also reclassify $23 million in current year awards as Proposition 98 funds, reflecting awards coordinated by community colleges. The May Revision further proposes to allow community colleges may be lead applicants for awards.

- The May Revision makes various other adjustments to the general apportionment, such as the inclusion of funding for projected FTES restoration and revised estimates concerning property taxes and fee revenues.

- Concerning the adult education proposal, forthcoming trailer bill will propose various modifications, perhaps most notably the elimination of the allocation boards that were proposed in January. Each consortium will instead be required to propose a transparent governance structure for joint approval by the Superintendent of Public Instruction and by the Chancellor. It will no longer be required that each consortium have a fiscal agent, allowing for direct funding of member agencies if so desired. Language will also specify and clarify various reporting and funding deadlines. More information will be provided on these changes as details become available in the trailer bill.

The Governor’s proposal to increase funding for the California Community Colleges at the May Revision is excellent news. These resources will aid us as we continue to recover from the devastating reductions of the economic downturn. Those funding reductions forced colleges to cut course sections, turn away hundreds of thousands of students, reduce crucial student support services, and tighten operational budgets, all the while dealing with new proposals to extend our reach, through the development of transfer degrees, the offering of baccalaureate degrees, to increase distance education courses, etc. For many of our state’s citizens, community colleges offer the best hope to escape poverty and build a brighter future, and this mission can only succeed with adequate state investment.

Even with this good May Revision news, it is important to remember that the colleges have not yet fully recovered from the bad times. We have not completely restored access and college operational budgets are still approximately $750 million below where we were, accounting for inflation. Further, college budgets will face additional stresses in the coming years, as PERS and STRS obligations are scheduled to increase rapidly and the state faces the sunset of Proposition
30 revenues. Given these circumstances and our knowledge of the volatility of the state’s revenue system, we suggest that districts plan carefully now so they are prepared to meet the challenges ahead.

Next steps in the budget process include a response by the Legislative Analyst’s Office, review by the budget committees of each house, and a legislative conference committee to iron out differences between the two houses. It is expected that the budget will be approved and signed by the Governor prior to July 1, 2015.

Regards,

Dan Troy

Vice Chancellor, California Community Colleges Chancellor’s Office
League's May Revise Budget Update Chart  
As of May 14, 2015

<table>
<thead>
<tr>
<th>Item (amounts in 000s)</th>
<th>2014-15 Enacted</th>
<th>2015-16 January Proposed</th>
<th>2015-16 May Revised Proposed</th>
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<tr>
<td><strong>Ongoing Funds</strong></td>
<td></td>
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<tr>
<td>Cost of Living</td>
<td>0.85%</td>
<td>$92,400 (1.5%)</td>
<td>$61,000 (1.02%)</td>
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<tr>
<td>Adjustment (Apportionment)</td>
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<tr>
<td>Enrollment Growth</td>
<td>2.75%</td>
<td>$106,900 (2%)</td>
<td>$156,500 (3%)</td>
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<tr>
<td>(Apportionment)</td>
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<tr>
<td>Student Success and Support Program (SSSP)</td>
<td>$199,183</td>
<td>$299,183</td>
<td>$299,183</td>
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<td>SSSP - Equity</td>
<td>$70,000</td>
<td>$170,000</td>
<td>$185,000*</td>
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<tr>
<td>Career Development</td>
<td>No Augmentation</td>
<td>$49,000</td>
<td>$49,000</td>
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<tr>
<td>College Preparation (CDCP) Rate Equalization</td>
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<tr>
<td>Apprenticeship Programs</td>
<td>No Augmentation</td>
<td>$29,100</td>
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<td>Operating Costs</td>
<td>No Augmentation</td>
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<td>Full-Time Faculty</td>
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<td>$75,000</td>
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<td>Basic Skills Partnership Pilot Program</td>
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<td>$2,000</td>
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<tr>
<td>Institutional Effectiveness</td>
<td>No Augmentation</td>
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<td>$15,000**</td>
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<tr>
<td>Categorical Program COLA</td>
<td>No Augmentation</td>
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<td>$2,500</td>
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<td><strong>One-Time Funds</strong></td>
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<tr>
<td>Career Technical Education</td>
<td>$50,000</td>
<td>$48,000</td>
<td>$48,000</td>
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<td>Mandate Backlog</td>
<td>$49,500</td>
<td>$353,300</td>
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<td>Deferred Maintenance &amp; Instructional Equipment</td>
<td>$148,000</td>
<td>No Augmentation</td>
<td>$148,000***</td>
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<td>Basic Skills &amp; Student Outcomes Transformation Program</td>
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<td>No Augmentation</td>
<td>$60,000</td>
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<td>Remaining Deferrals</td>
<td>$500,000</td>
<td>$39,500</td>
<td>$94,500</td>
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<td>Innovation Awards</td>
<td>$50,000</td>
<td>$25,000 (CSU Only)</td>
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<td><strong>Other</strong></td>
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<td>Prop 39</td>
<td>$37,500</td>
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<td>Adult Education</td>
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<td>CTE Incentive Grant</td>
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<td><strong>General Fund Proposition 98</strong></td>
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<td>Adjustments</td>
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<tr>
<td>Local Property Tax</td>
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<td>- $156,100</td>
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<tr>
<td>Student Enrollment Fee</td>
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<td>$7,400</td>
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* With a set-aside amount to implement SB 1023 for foster youth in EOPS  
** With $12 million for professional development and to implement educational practices such as SB 1391 for inmate education  
*** No match requirement
<table>
<thead>
<tr>
<th></th>
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<tr>
<td>FTIS</td>
<td>10,387</td>
<td>10,500</td>
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<td>Difference between ongoing Revenues &amp; Expenses (Structural Deficit)</td>
<td>200,000</td>
<td>(584,000)</td>
<td>1,124,338</td>
<td>(2,883,070)</td>
<td>(5,642,670)</td>
<td>(8,748,757)</td>
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<tr>
<td>Change in State Revenue Anticipated</td>
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<tr>
<td>A. Permanent Loss of Apportionment Revenue (FTIS Assumptions- Mid-Case – 10,500 in 2016-17)</td>
<td>420,000</td>
<td>575,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>B. COLA @ 8.5%, 1.02%, 0%</td>
<td>0</td>
<td>2,200,000</td>
<td>0</td>
<td>0</td>
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<td>C. Increase in the Base Allocation ($365 million at risk for reduction distributed based on formula not 1%)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>D. Enrollment Access</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>E. Water/ ww Center Revenue adjustments</td>
<td>0</td>
<td>0</td>
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<tr>
<td>F. Other Misc Revenue increases</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>G. Unearned Non-Credit</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>0</td>
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<tr>
<td>H. 75 million statewide allocated to increase Full-time faculty positions</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Net change in revenue</td>
<td>408,000</td>
<td>2,775,000</td>
<td>(2,806,000)</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Net Increase in Ongoing Expenses</td>
<td>Full-time Faculty Position changes net of retirements &amp; adjust back fill</td>
<td>156,000</td>
<td>40,000</td>
<td>340,000</td>
<td>0</td>
<td>0</td>
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<td>Impact of Full-Time faculty funding allocated in the 2015-16 May Revenue</td>
<td>206,000</td>
<td>31,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Step, Column, Longevity increases, etc.</td>
<td>420,000</td>
<td>(420,000)</td>
<td>(420,000)</td>
<td>(420,000)</td>
<td>(420,000)</td>
<td>(420,000)</td>
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<tr>
<td>Medical Plan Rate Increase—1.9%, 5%,... (5%-50% cost share in place)</td>
<td>(100,000)</td>
<td>(100,000)</td>
<td>(100,000)</td>
<td>(100,000)</td>
<td>(100,000)</td>
<td>(100,000)</td>
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<tr>
<td>Retirement Benefit Increase</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>PERS Rate Increase. 0.9%, 68%, 2.1%</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>0</td>
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<td>STRS Rate Increase, 0.65%, 2.48%, 4.33%, 6.19%, 6.37%, 9.88%</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Utilities</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Net Operating Increases</td>
<td>(31,000)</td>
<td>(155,000)</td>
<td>(150,000)</td>
<td>(150,000)</td>
<td>(150,000)</td>
<td>(150,000)</td>
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<td>Estimated cost of new Sick Leave Law—Effective July 1, 2015</td>
<td>(67,000)</td>
<td>(30,000)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Affordable Care Act Implementation</td>
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<td>Total Expenditure Increases</td>
<td>(1,324,000)</td>
<td>(1,444,000)</td>
<td>(1,408,000)</td>
<td>(1,255,000)</td>
<td>(1,186,087)</td>
<td>(3,617,576)</td>
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<tr>
<td>Estimated Budget Reductions</td>
<td>777,536</td>
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<tr>
<td>Ongoing Shortfall*</td>
<td>(584,000)</td>
<td>1,124,338</td>
<td>(1,833,070)</td>
<td>(5,642,670)</td>
<td>(8,748,757)</td>
<td>(12,166,133)</td>
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<tr>
<td>Operating Reserve available to bridge deficit</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Deficit net of One-time funds</td>
<td>(584,000)</td>
<td>1,124,338</td>
<td>(1,833,070)</td>
<td>(5,642,670)</td>
<td>(8,748,757)</td>
<td>(12,166,133)</td>
</tr>
</tbody>
</table>

* The CCPT Bargaining agreement if ratified will be reflected in the 2015-16 Final Budget
**ONE-TIME OPERATING RESERVES**

<table>
<thead>
<tr>
<th>Description</th>
<th>Projected</th>
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<tbody>
<tr>
<td>Balance as of May 26, 2015</td>
<td>$1,850,000</td>
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<tr>
<td>Increases:</td>
<td></td>
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<tr>
<td>2015-16 One-time Unrestricted State Mandates</td>
<td>$6,000,000</td>
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<tr>
<td>Decreases:</td>
<td></td>
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<tr>
<td>Increase General Reserve by 2%</td>
<td>($1,210,000)</td>
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<tr>
<td>Retiree Benefit Contribution</td>
<td>TBD</td>
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<td>2015-16 Facilities/IT Infrastructure/Maintenance Projects</td>
<td>TBD</td>
</tr>
<tr>
<td>2015-16 STRS/PERS Reserve</td>
<td>TBD</td>
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<tr>
<td>2015-16 One-time Program Planning Allocations</td>
<td>TBD</td>
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<tr>
<td>Projected Operating Reserve Balance</td>
<td>$6,640,000</td>
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*The CCFT bargaining agreement, if ratified, will be reflected in the 2015-16 Final Budget*