LONG BEACH CITY COLLEGE

MEMORANDUM

To: Colleagues

From: Ann-Marie Gabel

Date: May 14, 2014

Re: Governor's Budget Update

On Tuesday, May 13, 2014, the Governor announced his revisions to the proposed budget for the 2014-15 fiscal year. The "May Revise" closely mirrors what the Governor put forward in January but with a few unwelcome surprises. Mainly the Governor is proposing to begin funding the CalSTRS liability in 2014-15 by imposing an increase to the employer contribution this year. Unfortunately, the Governor also decreased the cost-of-living-adjustment from 0.86% to 0.85% and completely eliminated any funds for Instructional Equipment. The amount of unrestricted, discretionary funding provided to community colleges continues to be very low and is out-stripped by the increase to the CalSTRS contributions. As stated in the "May Revision 2014-15" document, "during short spikes in revenues, the state should avoid new ongoing commitments". As such, the Governor is proposing a constitutional amendment to create a Rainy Day Fund in order to smooth out revenues provided to K-14 education in future years from possible declining State revenues.

For community colleges, the impacts are highlighted as follows:

<u>2014-15</u>

- The original proposal in January to increase apportionments by $203.7 million (≈ 3.86%) has been changed to the following:
    - $47.3 million (0.85%) for Cost of Living Adjustment (COLA). This approximates **$839,000** for LBCC, a **$10,000 decrease in revenues** from January.
    - $140.4 million (2.75%) for Growth. Our current enrollment projections indicate that we will likely only be able to grow 2%; therefore, we will be budgeting at the 2% level which approximates **$1.85 million** for LBCC if we generate an additional 398 FTES.
- $200 million for the Student Success and Support Program (SSSP) and to strengthen efforts to assist underrepresented students. These are two different categorical programs and it is unknown yet as to how the Chancellor's Office will be allocating these funds. We have been told that the $100 million for SSSP will have a reduced matching requirement down to 2:1 rather than the original 3:1 and that there should be no match requirement for the $100 million for student equity.
- A complete buy-down of cash deferrals by the end of 2014-15 which means we won't have to borrow any funds for cash flow purposes.
- $6.0 million for technology infrastructure to allow each community college the opportunity to increase their bandwidth and replace technology equipment. It is unknown yet as to how the Chancellor's Office will be allocating these funds.
- $37.5 million for clean energy efficiency projects. This is the 2nd year of a five year program and we expect to receive around **$675,000** to use towards our energy efficiency projects supplementing our bond funds.
- $50 million for Economic and Workforce Development programs aimed at "developing, enhancing, and expanding career technical education programs to meet regional labor market demands".

- The original proposal in January to provide $175 million split equally between deferred maintenance and instructional equipment has been changed. Now the Governor proposes $148 million for deferred maintenance only. The good news in this proposal is the elimination of the match requirement. We estimate receiving approximates **$2.47 million** in deferred maintenance funds.
- $345,000 decrease in Mandated Costs which will reduce the amount we receive; however, it is yet unknown on the impact to LBCC.
- 1.25% increase is the CalSTRS contribution required of employers. For LBCC, this approximates a **$575,000 increase in our expenditures**. In January, the Governor had indicated that he planned on funding the CalSTRS liability beginning in the 2015-16 fiscal year. However, his new plan "built on shared responsibility among the state, school districts, and teachers" will begin in 2014-15 for the state and school districts.

2015-16

- Increase the rate of funding we receive for our enhanced non-credit courses ($3,283) to equal the credit course rate ($4,636) of funding.
  - For LBCC, this could mean an additional $100,000 in revenue assuming that we generate 74 FTES that is proposed in our 2014-15 FTES projections.
- CalSTRS Contributions
  - Employer contributions are proposed to increase another 1.6% bringing the contribution in 2015-16 to 11.1%. The proposal continues 1.6% increases each year through the year 2021-22.
  - For employees, the Governor proposes an increase in the employee contribution for classic members from 8.0% to 9.2% in 2015-16 and then to 10.25% in 2016-17 and thereafter. The employee contribution rate for new employees would be 9.21%.
- CalPERS Contributions
  - Employer contributions are proposed to increase another 1.6% bringing the contribution in 2015-16 to 13.3%.

The legislature has until June 15, 2014 to pass a budget for the Governor's signature. It is expected that they will meet this deadline as they have in the past couple of years. Unfortunately, it is unknown how close the Governor's proposed budget will compare with the budget ultimately passed by the legislature; we can only hope for the best.

What does this mean to us?

Here at LBCC, we are preparing our Tentative Budget using these revenue amounts in total. The Budget Advisory Committee has recommended that we build a 2% growth factor and a 1% deficit factor into our budget, which we have done. This means we are targeting 20,307 FTES for the 2014-15 fiscal year, but we have built our class schedules to try to achieve 20,700 FTES. The additional sections built into the class schedules may give rise to additional growth funds if they can be achieved.

We need to keep in mind that the State still has not fully recovered from the deep recession nor fully restored our funding. As such, with the increases (totaling $4.5 million) in full-time faculty, classified staff, and changes to management staff, along with the salary proposals (totaling $2.8 million) that have been made, we are expecting to bring a deficit budget to the Board in June and significantly reduce our ending fund balance reserves.