

ACCA/ACBO

Governors Proposed 2016/17 Budget Workshop
Sacramento, January 20, 2016

MEETING NOTES – BOB MILLER

BRAC PRESENTATION – JANUARY 28, 2016

Department of Finance (DOF)

- ❖ Economy in the 7th year of expansion – Average 5 Years; downturn a matter of time
- ❖ Capital Gains Taxes at an all-time high: Subject to wild fluctuations

Governor's Priorities

- ❖ Paying down liabilities/debt
- ❖ Countering the Effects of Poverty
- ❖ Addressing Climate Change

Department of Finance (DOF)

Governor's Key Community College System Themes or Pillars

- ❖ Maintaining College Affordability
- ❖ One Time Funding to Pay Down Debt
- ❖ \$289 million for Deferred Maintenance and Instructional Equipment
- ❖ Containing Student Costs: Zero Textbook; Innovation Awards (\$25 mill)
- ❖ Supporting Success for All Students - \$30 million increase - Basic Skills
- ❖ Strengthening Paths Through Education and Into the Workforce
 - \$245 million additional Workforce Education Categorical Funding

Legislative Analyst Office (LAO)

- ❖ Proposition 98 – up \$345 million – 4.7%
- ❖ Need to plan for next downturn – Build reserves, pay down debt, pay for infrastructure.
- ❖ **Key Themes** – Career Pathways, Basic Skills, Affordability.
- ❖ **Key Priority** – Strong Workforce Programs – Recommends Legislature tie funding closely to the priorities established by the Taskforce for Workforce Education and Economic Development – most recommendations require Chancellor Office administrative action or Legislative action (Trailer Bills).

Legislative Analyst Office (LAO)

- ❖ Workforce Funding Allocations – How realistic is it that regional groups will make good decisions related to local college needs? Revert to formula allocation - at least year one
- ❖ Additional Basic Skills Initiative Funds – premature since last years Basic Skills additional funding yet to be internalized
- ❖ Question 2% growth based on ability of system to absorb the growth
- ❖ COLA – Oil collapse cause of drastically reduced COLA - .47% from 1.9%

Chancellor's Office – Dan Troy

Vice Chancellor, Finance

- ❖ 2015/16 – One Time Funding Bonanza - \$600 Million
- ❖ 2016/17 - \$76 million; about \$65/FTES
- ❖ Prop 30
 - Dec. 31, 2016 – sales tax sunsets – 20% Prop 30 Funds (Pasadena City College \$1.8 million)
 - Dec. 31, 2017 – income tax sunsets – 80% - Prop 30 Funds (Pasadena City College \$15 million)

Chancellor's Office – Dan Troy

Vice Chancellor, Finance

- ❖ General Fund revenues up dramatically
- ❖ Prop 30 helps mightily – but volatile
- ❖ Improved economy major driver – but volatile
- ❖ Capital Gains Taxes - 100 Silicon Valley Taxpayers: Economy Dependent
- ❖ Access/Growth – 2% - 50K students; \$100 million cost
- ❖ As of P1, 15/16 growth statewide 1.3%; 2% OK for 16/17 (?)
- ❖ .47% COLA – disappointing – May revise final calculation by Feds -- \$29 million not enough – system needs substantially more funding for ongoing costs that cannot be controlled as well as those that can.

Chancellor's Office – Dan Troy

Vice Chancellor, Finance

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- ❖ Very pleased with: Workforce, Deferred Maintenance and Equipment, and Transition Funding based on local Labor Market Indicator (LMI) needs; provides time for Districts to realign CTE programs to align with local LMIs
 - ❖ Basic Skills Additional Funding – Understands LAOs concerns – support trailer bill changes specifically focused on aligning these funds with CTE pathways
 - ❖ \$289 Million Deferred Maintenance/Instructional Equipment Funds may be reduced to increase Base Funding
 - ❖ Innovation Funds for Implementation - CTE Pathways and Basic Skills
 - ❖ No Student Fee (tuition) Increase.

Cost Drivers

Beyond Control

- ❖ Prop 30
- ❖ STRS
- ❖ PERS

Somewhat Controllable

- ❖ Healthcare - Cost Can Be Mitigated Subject to Employee Group Negotiations

CEO Representative – Dr. Willy Duncan – Sierra Community College District

- ❖ Rainy Day Fund needed
- ❖ SSSP and Student Equity funds great; don't do all that's needed
- ❖ Large amount of downturn restoration dollars placed into these programs
- ❖ What about everything else? Need on-going Base increases
- ❖ Not enough Funding for daily overhead/business
- ❖ Adjusted for inflation, current day funding equivalent to 2007/08

Biggest Losses

- ❖ COLAs during downturn years
- ❖ STRS/PERS
- ❖ \$1.4 Billion in purchasing power since 07/08; last year, good start – not close to what is needed

CEO Representative – Dr. Willy Duncan – Sierra Community College District

- ❖ BOGs Top 2016/17 Priority – Base Increase – not funded
- ❖ Dollars need to be reallocated – Def Mtc/Instr Equip., Basic Skills, etc.
- ❖ Support for Growth/Access – half growing, half not – real problem for non-growing Districts – loosing ground
- ❖ SSSP and Student Equity – glad no additional funds; Districts need time to assimilate what they have – hiring, competition; needle will move but will take time
- ❖ Without discretionary funds, issues occur. Campus safety, IT, Fiscal, HR, Facilities, Other Staff Support

CEO Representative – Dr. Willy Duncan – Sierra Community College District

- ❖ Technology – New and support what exists – instructional, administrative, wireless, etc. – No discretionary funding
- ❖ Collective Bargaining – “Second Best Budget in Years” yet with cost drivers, .47% COLA, and limited dollars to “run the business”, tough discussions at the table loom. Stalemates possible. No other single issue impacts climate and campus morale.
- ❖ Need to strengthen severely understaffed Chancellor’s Office staff.

Question and Answer

- ❖ DOF has heard from the Chancellors Office for the need for additional Base Funding. DOF open to discussion.
- ❖ DOF/LAO/Chancellor's Office continue to work well together
- ❖ STRS increase must be legislated; PERS by PERS Board. Legislature likely not to increase STRS unless long term market returns continue to erode. If STRS/PERS increase, further argument for more discretionary funding
- ❖ PERS – increases phase-in and provide more time for investments to normalize
- ❖ Immediate threat of STRS/PERS increasing beyond what has been provided is remote.

Question and Answer

- ❖ Governors Rainy Day Fund will be fully funded – Holy Grail
- ❖ Growth Funding Formula – Funding weighted in support of disadvantaged communities - needy populations, whether growing or not
- ❖ Because statewide growth rates are low – about 1.3% - sense is growth dollars can be equalized among those able to grow and those not – enough funds to go around
- ❖ DOF and Governor Supportive of CC System Facilities Bond - have a 5 year \$30 billion plan – K-12s do not; that's the rub – CCs held hostage
- ❖ CBOs Two Major Issues – Increase Base; Need Bond to Rebuild.

Question and Answer

- ❖ DOF Priority – new workforce investments, programs
- ❖ CTE expensive and a local District gamble due to low enrollments
- ❖ Programs must be nimble and responsive to needs of the economy
- ❖ DOF/Governor provide funds to deal with these realities
- ❖ Fulltime Faculty – no new funds in 16/17 – looking for additional \$'s
- ❖ LAO and Chancellors Office looking at FON Calculation Formula -- only works if money provided – need more discretionary funds
- ❖ 1/3 of Districts on stability funding every year; now two years, return to three sought.

Question and Answer

- ❖ Categorical, growth, FT Faculty, etc. do not allow Districts to build back support staff – Facilities, IT, HR, Grounds, instructional support; these vital staff build-backs need to be addressed
- ❖ Forced to grow to get funds; many Districts cannot grow; want a discussion to fund Districts who cannot grow so they can at least maintain quality of existing instruction and student services
- ❖ Lots of funds; all restricted. Nothing discretionary.

Senator Marty Block – Chair, Senate Education Budget Committee

- ❖ Very Popular/Powerful Governor – 80% to 90% of his budget will be enacted as is – Legislature powerless to get more
- ❖ Have realistic priorities; when you lobby, lobby for 17/18; 16/17 done.
- ❖ Legislative Priorities – spend smarter, not more.
- ❖ Must produce well-trained workers
- ❖ PPIC – 1.3 million Bachelors degrees by 2030; 79K degrees per year; CCs fill the gap; CSUs and UCs cannot match on a dollar for dollar basis
- ❖ CCs competing with MediCal, transportation infrastructure, social services, climate, water, etc. and must make case for working smarter and getting more resources. It's all about moving the completion needle, closing the achievement gap and workforce education that feeds economic development

Summary

- ❖ 2016/17 budget process just beginning; an intense three months lies ahead
- ❖ Systemic funding issues exist as regards cost drivers (STRS/PERS, Prop 30, Healthcare), increasing the base, restoring needed support staff/services, infrastructure, etc.
- ❖ Reallocation of some of Governor's funding likely; more funds possible
- ❖ Policy makers focused on completion, achievement gap, workforce education and economic development
- ❖ Performance-based funding manifested in new Growth Formula and likely new Workforce dollars as well -- this is our future
- ❖ Available resources need to be assessed to drive Strategic Plan, Board Goals, EMP to "move the needles"

PASADENA AREA COMMUNITY COLLEGE DISTRICT

FISCAL YEAR 2016-2017

GOVERNOR'S PROPOSED BUDGET IMPACT ON PCC

JANUARY 25, 2016

OVERVIEW PROVIDED BY:
JOE SIMONESCHI

OVERVIEW

The Governor's Budget is released in January of each calendar year, and is subject to negotiations with various State entities. The State Senate and Assembly hold hearings, propose a budget, meet with the Department of Finance and a May Revise Budget is typically issued no later than May 10th. The final Budget is adopted no later than June of the same calendar year. Our Tentative Budget is based on the Governor's May Revise.

The District proposes a Tentative Budget to the Board of Trustees no later than the middle of June for Fund 01 (Unrestricted Budget), so operating costs can be expended. A separate Adopted budget is proposed to the Board of Trustees no later than the first meeting of September for final adoption.

California Code of Regulations, in sum, states that the governing board of each district shall hold a public hearing on the proposed budget for the ensuing fiscal year on or before the 15th day of September.

The following should be considered preliminary budget projections subject to change based on the negotiations between the California Community College System, Department of Finance, and State Legislature.

Minimal to major changes can occur between now and the May Revise Budget.

2016-2017 Anticipated New Revenue

Unrestricted Funds - Ongoing Funds

Enrollment Growth / Apportionment (Statewide Recommendation 2%)	\$1,924,200
Cost of Living Allowance (COLA) 0.47%	527,400
Sub-Total	2,451,600

<u>Proposition 30 (Educational Protection Act) Sales Tax Ending 12/31/16 – 6/30/17 (6 months)</u>	<u>(1,811,401)</u>
Total Estimated Ongoing Funds	640,199

Unrestricted Funds - One-Time Funds

<u>Mandate Reimbursements</u>	<u>1,368,000</u>
Total Estimated One-Time Funds	1,368,000

Total Extended Estimated Revenues - Unrestricted (New) \$2,008,199

2016-2017 Anticipated New Revenue Continued

Restricted Ongoing Funds

Economic and Workforce Development / Career Technical Education Pathways (SB 1070)*	\$4,464,000
Basic Skills	540,000
Categorical Program COLA's (EOPS, DSPS, CalWorks, Child Credit Tax)	23,400
Total Restricted Ongoing Funds	5,027,400

Restricted One-Time Funds

Deferred Maintenance & Instructional Equipment**	5,094,000
Proposition 39 – Energy Efficiency Funding	810,000
Total Restricted One-Time Funds	5,904,000

<u>Total Estimated Restricted Revenues (New)</u>	<u>10,931,400</u>
Total Extended Anticipated New Revenue Unrestricted & Restricted	\$12,939,599

*These funds may be able to offset ongoing CTE funding (to replace old programs with newly created programs, which better serve the local market regional workforce needs). This is subject to trailer bill legislation addressing possible supplanting issues.

**A portion of these funds may be added to the base allocation rate. This is currently being negotiated at the State level by the Chancellor's Office. The District is assuming 1.8% of \$100 million.

01 Fund Anticipated Expense Increases

At this time, the increase being used to project Health and Welfare Benefits is 15%. The year-over-year estimated increase in expenses are below:

<u>Description</u>	<u>Budget</u>
1. 50 New Faculty (including all employer mandated costs) – Net of \$1.35 million in Adjunct Savings	\$3,003,000
2. CalSTRS (Employer Contribution from 10.73% to 12.58%)	980,000
3. CalPERS (employer Contribution from 11.847% to 13.05%)	323,000
4. Fiscal Year 2016-2017 Step & Column Increases	750,000
5. Affordable Care Act – Health Care Coverage for Hourly Employees	150,000
6. Reserves for Salary Increases Reflects 2% plus ½ COLA for negotiated CBA's with Confidentials, CSEA, CFT, and POA.	475,000
7. Reserves for Healthcare* Increases – Reflects District payment of full cost of H&WB (negotiated CBA's) for Confidentials, CSEA, CFT, and POA. This includes the cost for the 50 new Faculty at the negotiated cap on H&WB. Faculty, managers, and executives will participate in cost sharing as negotiated/met and conferred.	2,000,000
8. Dental	225,000
9. Vision	40,000
Sub-Total	7,946,000
Fiscal Year 2015-2016 Use of One-Time Funds for Ongoing Expenditures	
1. Step and Column	1,000,000
2. Retroactive Payments (All Classified Groups for Fiscal Year 2014-2015 on Grants)	675,000
3. Health Benefits for Hourly Staff (Affordable Care Act)	400,000
4. Adjunct Office Hours	500,000
5. Unforeseen Needs	225,000
Sub-Total	2,800,000
Fiscal Year 2016-2017 Savings	
1. Supplemental Early Retirement Program Fiscal Year 2010-2011	(1,250,000)
Net	\$9,496,000

*Healthcare expenses may reduce significantly lower based on lower percentage increases and possible program design changes, which is subject to Benefits Committee discussions, and CBA negotiations.

Difference of Revenue versus Expense

<u>Worst Case Scenario</u> - Total New Ongoing Funds – Revenue	\$ 640,199
Total Estimated Ongoing Expenses	(9,496,000)
Difference	(\$8,855,801)

<u>Best Case Scenario</u> - Total New Ongoing Funds – Revenue	\$ 640,199
Potential Economic and Workforce Development / Career Technical Education Pathways (SB 1070) - applied to Unrestricted Funds*	4,464,000
Potential Reallocation of Deferred Maintenance & Instructional Equipment – applied to Unrestricted Funds**	1,800,000
Sub-Total	6,904,199
Total Estimated Ongoing Expenses	(9,496,000)
Difference	(\$2,591,801)

*These funds may be able to offset ongoing CTE funding (to replace old programs with newly created programs, which better serve the local market regional workforce needs). This is subject to trailer bill legislation addressing possible supplanting issues.

**A portion of these funds may be added to the base allocation rate. This is currently being negotiated at the State level by the Chancellor's Office. The District is assuming 1.8% of \$100 million.

This number represents the worst case scenario. It also does not represent possible healthcare program design changes that may reduce the policy increase. Further, the above assumes no backfill/relief from the loss of Prop 30 - EPA funding effective December 31, 2016.

At the Governor's Budget Workshop held by ACCCA and ACBO last week, the Chancellor's Office, the Department of Finance, and the Legislative Analyst's Office, heard the outcry from the Community College Chief Business Officers and others who expressed the need to shift funds from line items in the budget such as Deferred Maintenance into an increase in the base rate allocation. This would provide more flexibility to the District in the allocation of funds. However, we should be cautious as even this shift in funding will not be enough to cover the estimated ongoing expenses. However, we should be cautious. At this time even this shift in funding will not be enough to cover the shortfall.

We must address the budget shortfall.

2016/2017 Initial Recommendations on the
Use of State Mandated One-Time Funds
\$1,368,000

<u>Description</u>	<u>Budget</u>
1. General Reserves	\$ 350,000
2. CalSTRS & CalPERS Set-Aside for Future Year Increases	350,000
3. Worker's Compensation Fund	250,000
4. Other Post Employment Benefits	300,000
5. Capital Service Fund 29	75,000
6. Dental Coverage Fund 63	43,000
One-Time Funds Total	\$1,368,000

SOME SUGGESTED ACTION ITEMS TO BALANCE THE BUDGET

- Significantly reduce expenditures for College Assistants
- Reduce Stipends
- Healthcare Program Design Changes
- Continue FTES to Expense efficiencies
- Implement freeze of services and supplies purchases
- Possible hiring freeze
- Reduce Travel and Professional Development costs
- Other

FOR YOUR INFORMATION...

PCC'S DEFERRED MAINTENANCE AND INSTRUCTIONAL EQUIPMENT BREAKDOWN

	Fiscal Year 2013-2014	Fiscal Year 2014-2015	Fiscal Year 2015-2016
Total Received from the State	\$534,362	\$2,817,815	\$2,925,816
Facilities –Deferred Maintenance	267,184	1,714,185	1,990,816
Instructional & Administrative Technology Equipment	\$267,178	\$1,603,630*	\$935,000

*The District contributed an additional \$500,000 because of the long term need that went unfunded due to the economic downturn.