



To: Colleagues

From: Ann-Marie Gabel – Vice Chancellor, Business Services

Date: May 15, 2020

Re: Governor’s May Revision to the 2020-21 Budget

Yesterday, Governor Newsom presented his May Revision budget proposal for the 2020-21 fiscal year. As expected, this budget is a complete departure from what was presented in January. Due to the current COVID-19 pandemic, the state and the nation, have been plunged into a recession deeper than what we saw during the Great Recession. We no longer see a budget surplus, rather there is a \$54 billion budget shortfall this year that is projected to grow into a \$16 billion deficit in fiscal year 2023-24. In other words, the days of good budgets are past us and we can expect little to no additional funding in the next few years.

In his press conference, the Governor indicated the budget “protects the core values of public education, public health, public safety, and people hit hardest by COVID-19.” Although it purports to protect public education, the budget drastically reduces the allocations for community colleges. However, the budget language does provide a caveat that if funding from the federal government is received, then many of the proposed cuts will be automatically restored. The programs with an automatic restoration are denoted below with an asterisk (*).

In January the community colleges were projected to receive an additional \$136 million bringing the total General Fund allocation to \$5.65 billion (10.93% of Proposition 98 dollars). Today, community colleges are expected cuts totaling \$1.3 billion bringing the total General Fund allocation to \$4.3 billion. As part of a budget savings strategy, the state is deferring \$330.1 million in Proposition 98 funding from 2019-20 to 2020-21 and another \$662.1 million from 2020-21 to 2021-22.

The significant changes faced by our District include an elimination of the cost of living adjustment (COLA), no funding for growth, and an unprecedented decrease to categorical programs impacting basic aid districts only. Conversely, the budget provides funding to reduce the PERS and STRS employer contributions and funds construction for two of our projects. The major components of the budget and the impacts to our District are explained below:

Unrestricted General Fund:

- \$593 million (≈8%) base reduction* to the Student Centered Funding Formula (SCFF). No cost of living adjustment (COLA)* and no funding for growth*. The statutory COLA is calculated at 2.31% and would cost \$167.7 million but there is no requirement for this to be funded. The base reduction plus the loss in COLA totals \$760 million and equals the approximate 10% cut indicated by the Governor.
 - As you may know, our budget board policy and guidelines stipulate that we fund our operating budgets through the District Resources Allocation Committee (DRAC) allocation model the same way as the state funds the Student Centered Funding Formula (SCFF). This means that we would allocate the base reduction, not include COLA and not include growth within our DRAC model. However, in a departure from our Board Policy and budget guidelines, after consultation with the Chancellor, I am recommending to the Board of Trustees that we not apply a base reduction, fund the statutory COLA of 2.31%,

and fund 0.48% growth in our DRAC model for the operating budgets. We can do this by utilizing \$17.4 million of our basic aid allocation resources.

- It's important to note that the Governor expects us to maintain enrollment at our current levels and acknowledges that in order to do so "*institutions would have to adopt some combination of class size increases and personnel reductions to achieve the targeted budget reductions and meet the Governor's goal of maintaining access.*"
- SCFF hold harmless provisions are extended another two years until 2023-24. In addition, the rates for 2019-20 are set at \$4,115 for credit FTES, \$948 for supplemental counts, \$559 for student success metrics, and \$141 for equity bump on student success metrics. These rates will be adjusted down proportionately in 2020-21 for the base reduction mentioned above.
- \$2.3 billion reallocated from the PERS and STRS employer long-term unfunded liability payment to offset the PERS and STRS rates in 2020-21 and 2021-22. Doing so brings down the 2020-21 employer rate for PERS from 22.67% to 20.7% and for STRS from 18.41% to 16.15% generating approximately \$2.5 million in savings for our District this year. This will also decrease the projected 2021-22 rates for PERS and STRS from 25% and 18.2% to 22.84% and 16.02%, respectively.
- Statute changes will allow districts to exclude COVID-19 expenses from the 50% Law calculation.

Restricted General Fund: In an unprecedented move, the budget bill proposes to reduce the funding received for categorical programs at basic aid districts in proportion to the SCFF cuts received by all other districts. In essence they will calculate the dollar value of what the base reduction to our SCFF funding would be assuming we were not basic aid and then apply that dollar value as a reduction to our categorical programs. It is anticipated that this reduction alone could be as large as \$13 million for the District. This is in addition to the reductions and other changes listed below.

- \$135.6 million (≈58%) reduction in the Strong Workforce* program. The impact to the District is estimated at \$1.6 million reduced funding for our local award and additional reductions in regional funding awards,
- \$68.8 million (≈15%) reduction in the Student Equity and Achievement (SEA)* program. We estimate approximately \$1.5 million for us.
 - Rather than creating separate programs for food insecurity and dreamer resource liaisons, the budget bill language incorporates these activities into the SEA program as allowable expenditures.
- \$7.3 million (≈15%) reduction in the Part-Time Faculty Compensation* and Office Hours* programs and the statewide Academic Senate*.
- \$54.4 million (≈43%) reduction in the Adult Education program covering K-12 and community colleges. The community college only portion is a \$6 million (≈10%) reduction. The impact to the District is estimated between \$0.5 million and \$2.1 million.
- Statute changes would allow the use of restricted fund balances that exist from discretionary fees charged (i.e. parking, instructional materials, etc. excluding lottery funds) to offset losses incurred from COVID-19 as long as those funds are first utilized to mitigate impacts to programs serving underrepresented students and to expand the number of students served in distance education.

Capital Outlay Fund: The budget provides \$223.1 million for 25 new and 15 continuing capital outlay projects under the Proposition 51 bond. We received funding for the construction phase for our two projects as follows: \$20,838,000 for the Fine Arts Complex at Irvine Valley College and \$23,626,000 for the Gateway Project at Saddleback College.

Our Tentative Budget will reflect many of the changes presented in the May Revision. We have updated the DRAC model using this information and discussed it at DRAC today. Our Tentative Budget will be presented to the Board of Trustees for approval at the June 22, 2020 meeting.

The next steps in the budget process is for adoption of a budget by the both the Assembly and Senate. If there are any line items that differ between the Governor's budget and the budget they each adopt, then those line items will go into the Conference Committee for resolution. It is anticipated that we will have a final State budget by the June 15 legislative deadline. However, the State budget will be revised again this summer once the income tax returns have been filed on July 15. It is anticipated that this "junior" budget bill will come out in mid-August.

Any changes to the final State budget or the "junior" budget will be incorporated into our Adopted Budget. Due to anticipated "junior" budget, the Chancellor's Office has extended our reporting deadlines for completion of the Adopted Budget and our year-end financial reports. The Adopted Budget is now due no later than October 31; therefore, rather than taking our Adopted Budget to the Board on August 31, 2020 as planned, we will push approval of the Adopted Budget to the September 21, 2020 Board meeting.

For individuals who want more information on the budget, you can access the Governor's Budget Summary [here](#). Although not posted yet, the joint analysis prepared by the Chancellor's Office ACBO, ACCCA, and the Community College League of California (CCLC) can be found at this [link](#) once it is posted by the Chancellor's Office.